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NAVAL POSTGRADUATE SCHOOL

MONTEREY, CALIFORNIA

THESIS

**IMPLICATIONS OF CHINA'S GROWING DEMAND FOR
OIL: A CASE STUDY IN VENEZUELA**

by

Keith Alan Peterson

December 2007

Thesis Advisor:
Second Reader:

Alice L. Miller
Timothy J. Doorey

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**IMPLICATIONS OF CHINA'S GROWING DEMAND FOR OIL: A CASE
STUDY IN VENEZUELA**

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Lieutenant United States Navy
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Submitted in partial fulfillment
Required elements for the degree of

MASTER OF ARTS IN NATIONAL SECURITY AFFAIRS

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ABSTRACT

China's economic rise is coupled with a growing need to find reliable foreign energy sources. China is the world's second largest oil consumer. China's demand for oil is outpacing previous estimates and accounted for 38 percent of the world's increased demand in 2006. Venezuela is the sixth largest oil producer and is now providing oil to China as a way to diversify exports away from the United States. As China's demand increases and global oil production wanes, China will become major a challenge for the United States. China will need strategic allies to be able to compete and will find a willing partner in Venezuela.

The solution requires a new approach to international oil markets that removes politics from the sale of oil. A multilateral effort led by Japan has the greatest likelihood of success in a world that is becoming increasingly competitive over resources. Creating a framework that promotes cooperation before supply becomes limited is very important for success. If the three largest importers, United States, Japan and China, all work together, the likelihood of future war or severe economic shock over oil among the great powers will be diminished.

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I. INTRODUCTION

A. PURPOSE

Since the Chinese Communist Party took control of China in 1949 by means of armed revolution, it has sought international legitimacy. Some big events that validated the People's Republic of China include the United Nations admitting the PRC in 1971, the United States finally giving diplomatic recognition to the PRC in 1979 and most recently, the World Trade Organization allowing China to join in 2001. All of these major steps in Chinese foreign affairs have overshadowed the progress the Chinese Communist Party (CCP) has made in many Third World countries over decades.

Chinese involvement in Latin America began with CCP support (mostly rhetorical) for the various communist movements on the continent. Today, China gives no apparent support, rhetorical or material, to these groups. Instead, China is investing billions of dollars in Latin America and building strong ties with any government that will have them, regardless of ideology. The role of communist ideology in Chinese politics and foreign policy has been replaced with all of its emphasis on nationalism and economic self-interest.¹

This thesis assesses the political and strategic implications for the United States of Chinese investment in Venezuela. The broader background for this thesis rests on assessment of: China's strategic goals, the Monroe Doctrine, American and Chinese energy concerns and the resources in Venezuela, the history of Venezuelan exports, and the foreign policy views of the Venezuelan leadership. The thesis focuses on a detailed history and on projections of Chinese investment into Venezuela, and will evaluate the short and long term implications for American strategic interests in South America.

¹ Nicholas R. Lardy, *Integrating China in the Global Economy* (Washington, D.C.: Brookings Institution Press, 2002), 11.

This thesis seeks to answer three questions. First, is China's investment in Venezuela purely for long-term economic gain? Second, is Beijing pursuing strategic and political goals as well? Third, what are the long-term implications for the United States, and how may U.S. policymakers respond? While it is impossible to predict the future, it is reasonable to identify key indicators of future trends and outcomes and whether the Chinese-Venezuelan economic relationship has strategic implication for the United States in the future.

China has steadily increased its direct foreign investment (FDI) around the world since 1993. After a small start, China's investments have grown to multi-billion dollar levels in oil production and other infrastructure projects around the world. This has been especially true in areas such as Africa and South America that, in recent years, have enjoyed less than full financial and political attention of the United States. In terms of strategic implications for the United States, Venezuela is not China's largest FDI recipient, but it could be the most important, due to the volatile nature of the Venezuelan leadership and its anti-American rhetoric.² From an economic standpoint it is important to examine this relationship because Venezuela is estimated to have the largest oil reserves in South America and is a significant source of oil for the United States.³ In addition, the government of Venezuela has taken a highly antagonistic stance towards the United States and is currently implementing nationalization of its foreign-owned oil fields.⁴ China has invested over 1.6 billion USD in Venezuelan infrastructure projects

² The majority of FDI from China goes to its nearby neighbors in Asia. Chinese investment in Sudan is covered extensively by the media due to political issues; however Sudan receives far less Chinese FDI than Venezuela receives.

³ Estimates for Venezuelan oil exports to the United States are more than 1.1 million barrels a day. Energy Information Administration, January 2007 Petroleum Supply Monthly With Data for November 2006, http://www.eia.doe.gov/pub/oil_gas/petroleum/data_publications/petroleum_supply_monthly/current/pdf/table52.pdf (accessed February 4, 2007).

⁴ Andy Webb-Vidal, "Venezuela Takes Control of Private Oilfields," *Financial Times*, January 3, 2006.

and has made deals for future oil procurement.⁵ Some questions that arise from these facts include: Why is Venezuela leaning strongly toward a weaker power, China, rather than its traditional ally, the United States? Why is China spending billions on infrastructure projects in Venezuela as well as in the rest of Latin America? What does this all mean for the United States? If Chinese encroachment in South America is likely to disrupt the supply of oil to the United States, that prospect should be identified early so that policy can be adjusted in advance to address this.

The goal of this thesis is to convince the reader that China's rise is a geo-strategic threat to the United States. The suggested threat is not due to any CCP grand strategy of conquest or any other unstated goal, rather it is the almost unavoidable consequence of limited resources in an increasingly competitive environment. Investments and oil deals in Venezuela are an example of how China's energy-based foreign policy is being carried out around the world and exemplary of the increasing challenge this represents to the United States. The growing relationship between China and Venezuela is an especially important case because Venezuela is a significant source of oil for the United States. The impact of China's attempts to "lock-up" resources is likely to be felt by the United States first with the loss of imports from Venezuela.

To mitigate the risk of conflict with China over oil, the issue needs to be addressed before a major oil shortage occurs on a global scale. Effectively developing a multilateral forum to address this problem will require a cooperative effort among the many oil importers and exporters. This thesis will introduce Japan as a key ally in developing a world solution to China's rising need for oil and at the same time toning down the rhetoric from oil exporters like Venezuela.

⁵ Phillip C. Saunders, *China's Global Activism: Strategy, Drivers, and Tools*. Washington, D.C.: National Defense University Press, 2006, 45. Recent events include a statement by the Venezuelan Foreign Minister in 2006 that China has agreed to fund 4 billion USD toward a joint investment fund of 6 billion USD. This money will primarily be used for infrastructure projects in Venezuela. "Venezuela, China set up investment fund of 6 billion USD," *Vietnam News Agency*, Wednesday, October 25, 2006.

B. LITERATURE REVIEW

Much has been written about Chinese investment in Southeast Asia and Africa, but little academic attention has been devoted to China's economic relations with Latin America. Due to the economic importance of Venezuelan oil to the United States, it is important to assess Chinese influence in Venezuela. Investigating the political and strategic implications for the United States of Sino-Venezuelan relations invites the application of a variety of theoretical and other perspectives.

1. Balancing vs. Bandwagoning

To understand the shifting of Venezuelan loyalties toward China, the theory of balancing is useful. In *Theory of International Politics*, Kenneth Waltz examines the tendency for weaker nations to form allegiances to other weak nations as a means of offsetting the strength of a stronger power. This allows for a more balanced international system and lessens the likelihood of a single hegemonic power in the region.⁶ From this perspective, it makes sense to balance against the hegemonic U.S. position, therefore siding with China would be a logical choice. This theory may explain in part why Venezuelan leadership is developing relations with Beijing and pulling away from the United States. From another perspective, however, it would seem prudent for Venezuela to side with the United States as the stronger power. The strength of the United States and its proximity to Venezuela compared to China's weakness and distance from Venezuela might lead Caracas instead to lean toward Washington. This is described by Waltz as "bandwagoning."⁷

2. Economic Engagement / Investment Politics

Today, China is facing a potential energy crisis in fueling its rapidly growing economy. This requirement for oil imports is motivating investment in many countries having oil that can be extracted for use in China. In addition, China is searching for

⁶ Kenneth N. Waltz, *Theory of International Politics*. Berkeley, CA: McGraw-Hill, 1979, 126.

⁷ Ibid., 126, Waltz credits the term "bandwagoning" to Stephen Van Evera.

alternative energy sources (other than oil) to diversify and better meet its increasing energy need. Barry Naughton's analysis of China's economy underscores the need for continued expansion to maintain China's overall economic health and to find new sources [of energy] to supplement China's own insufficient domestic oil production.⁸ To that end, China has built new schools, roads, and stadiums in many developing countries, along with its focus on energy developments in oil, natural gas and minerals.⁹ The net gain in political capital that these projects have had for China is difficult to quantify; however it is not surprising that Venezuela has recently encouraged Iran to shift oil exports from the United States to China.¹⁰

3. China's Ambition

Chinese officials have repeatedly stated that China is striving for a "peaceful rise."¹¹ This complements the long-standing basis of Chinese foreign policy, "the Five Principles of Peaceful Coexistence."¹² Looked at through the lens of idealism, it would seem that Chinese foreign policy rhetoric is consistent with a modern evolution of international relations. John Mueller, a strong proponent of idealism, suggests that the need for major conflict between powerful states has become a relic of history.¹³ If the idealist camp is correct, then China's rise will remain peaceful because strong powers are

⁸ Barry Naughton, *The Chinese Economy: Transitions and Growth* (Cambridge, MA: MIT Press, 2007), 333-343.

⁹ Saunders, *China's Global Activism*, 35-53.

¹⁰ Andy Webb-Vidal, "Venezuela enlists Iran to steer oil to China," *Financial Times*, London, England, January 31, 2005, Edition 2. Venezuela's encouragement to steer oil away from U.S. markets is mostly rhetorical given the ongoing 1995 U.S. embargo on Iranian imports. Nevertheless, it may indicate that Venezuela is pushing a greater divide between the United States and Iran. <http://www.eia.doe.gov/emeu/cabs/Iran/Background.html> (accessed March 30, 2007). Iranian oil reserves are estimated to be ten percent of world totals. Presently, the top two importers of Iranian crude oil are Japan and China respectively. <http://www.eia.doe.gov/emeu/cabs/Iran/Oil.html> (accessed March 30, 2007).

¹¹ "China's peaceful rise" was first announced as a goal by Chinese leaders in 2003 and has been an ongoing topic of debate. Zheng Bijian, "China's 'Peaceful Rise' to Great-Power Status," *Foreign Affairs* 84, (September/October 2005).

¹² Pan Tao, "Timeless Theme of International Relations," *Beijing Review* 47, no. 23 (2004): 18. Zhou Enlai first stated the "Five Principles" in December 1953 during negotiations with India. These principles have been heralded by Chinese diplomacy ever since.

¹³ John Mueller, *Retreat from Doomsday: The Obsolescence of Major War*, New York: Basic Books, 1989.

unlikely to tolerate war with other strong powers.¹⁴ Therefore, as China becomes more developed, conflict becomes less likely. While this has given hope to some idealists, it does not necessarily fit with other theories regarding emerging world powers. As evident in his theory of offensive realism, John Mearsheimer is a leading exponent of the perspective that a rising China poses a danger. He contends that a rising power is always interested in becoming at least a regional hegemon to ensure its own security. When the interests of this rising regional hegemon conflict with [or threaten] the interests of the prevailing hegemon, it is sure to lead to some level of conflict.¹⁵ This idea is contrary to the frequent view that China is a “status quo power.”¹⁶ There is little reason for a rising nation to desire to play by the rules of the current status quo powers.

4. Soft Power

The rise of China raises questions beyond traditional international relations theory.¹⁷ Joseph Nye’s term “soft power” originally pertained to non-military, non-economic, traditional means of international influence.¹⁸ Although others have analyzed China’s growing soft power using broader definitions, it is equally important to understand Chinese influence in Nye’s original description.¹⁹

China’s massive economic growth in the past decades has amazed most observers. In spite of the West’s hopes, the shift from communism to capitalism (and the ensuing economic boom) did not cause a similar transformation in politics. The CCP remains a powerful authoritarian government with no plans to give up its hold on power. This

¹⁴ Mueller, *Retreat from Doomsday: The Obsolescence of Major War*, 221.

¹⁵ John J. Mearsheimer, *The Tragedy of Great Power Politics* (New York: Norton, 2001) and John J. Mearsheimer, “The Rise of China will not be Peaceful at All,” *The Australian*, November 18, 2005.

¹⁶ A “status quo power” is one that wants to maintain the current world system even though that power is considered second rate. Therefore, there is a motivation to maintain another nation’s supremacy for its own security interests. For more on “status quo powers” see Hans J. Morgenthau, *Politics among Nations: The Struggle for Power and Peace* (New York: Alfred A. Knopf, 5th ed., 1978), 46.

¹⁷ Traditional IR theory is referring to the concepts of realism, idealism and balance of power.

¹⁸ Joseph S. Nye, *Soft power: the means to success in world politics*. (New York: Public Affairs, 2004).

¹⁹ Joshua Kurlantzick, “China’s Charm: Implications of Chinese Soft Power.” Carnegie Endowment for International Peace, *Policy Brief* 47, (June 2006), 1.

model of economic success without political reform may be an attractive concept for governments with less mature democratic establishments.²⁰ China has become a vanguard of authoritarian capitalism.²¹ At the same time, the soft power wielded by the United States (and therefore the Liberal Democracy model) has waned recently. China's success has not gone unnoticed by developing countries like Venezuela and therefore China's "soft power" capital is on the rise.

C. METHODOLOGY AND ORGANIZATION OF CHAPTERS

This thesis will assess the degree to which these theories adequately explain the evolving relationship between China and Venezuela in order to determine what are the political underpinnings of Chinese investment and the ramifications for the United States. The case study of Venezuela may buttress the argument that Chinese expansion beyond regional Asia-Pacific hegemony underscores its expanding global influence and ambitions. It is already accepted by most that China has significant influence in Southeast Asia. It is therefore worthwhile to look at China's influence in South America and in Venezuela in particular. This case may suggest future patterns in other developing countries in the region and the world. Most important to the United States is that Venezuela is a vital source of oil imports and Chinese involvement is potentially contrary to Washington's interests. Analysis of the case of Venezuela will involve statistical trends of Chinese investments and other trends in the region and beyond. Furthermore, a broader assessment of China and Venezuela's foreign policy goals, derived from primary and secondary sources, will create a foundation on which future scenarios and further research can be based.

An analysis of the relationship between China, Venezuela, and demand for oil will be presented in five chapters. Chapter I will present the analytical framework and general scope of the thesis. Chapter II presents the economic and political background for China and Venezuela with linkages to the United States when necessary. Chapter III describes China's rise in depth and begins to build the case for potential conflict

²⁰ Azar Gat, "The Return of Authoritarian Great Powers," *Foreign Affairs* 87 (2007), 67.

²¹ *Ibid.*, 66.

with the United States. Covered topics include China's rising nationalism, military investment and modernization, and the implications of regional ambition in a globalized world. These topics are discussed to illustrate the growing danger that China could present the United States and helps illustrate the need for a new approach in dealing with resource shortages. In Chapter IV there will be a discussion of potential threat indicators. This is critical to this study in two ways. First, some analysts point to the non-threatening nature of China's investment in Venezuela based on the lack of certain factors; however, new evidence is dismantling these arguments. Second, it is crucial for policy-makers to be aware of further indications that the relationship poses risk to U.S. national security. Finally, in the conclusion there will be a discussion of some options with a final policy recommendation involving a multilateral approach with Japan. The involvement of Japan is based on two factors. First, Japan is the second largest oil importer and therefore has a major interest in the outcome of a new global oil framework. Second, Japan is widely considered to be a leader in multilateral non-military diplomacy (in recent decades) and would be more likely to sway the world's opinion favorably toward a multilateral approach than would the United States. The probability that China will conform to a new international framework would be significantly improved when a majority of world powers are in agreement.

II. ECONOMICS, HISTORY AND CURRENT CONDITIONS

A. CHINA

China's rise over the past three decades has been a miraculous recovery from many years of backwardness and poverty. Sometimes referred to as the "Century of Humiliation," the roughly 100 years prior to the communist revolution gives the Chinese people a sense of accomplishment today. Growth in China's domestic economy and status has caused China to be regarded a rising power in the world, as both a great example of recovery and a potential threat to the United States.

1. PRC

Before 1980, Most Chinese experienced a low standard of living. As in all things, there are a multitude of factors that contributed to their poverty. A re-occurring theme in China's history is that prior to the 1980's, government failure was a fundamental cause for the poverty and backwardness experienced by most of the population. Mao's three-decade experiment with Stalinist economics led to an economic disaster. The agricultural sector bore the brunt of weak government and bad economic decisions and is still among the more backward sectors in China today.

After Deng Xiaoping's legendary statement, "To get rich is glorious," China embarked on a new path toward economic development.²² From the foundation of a command economy under a communist government, in 1978 China embraced a deliberate, measured period of reform that led to enormous economic growth. Today, China is among the largest economies in the world and accounts for a substantial percentage of world trade. This huge transformation in a relatively short period of time has left other developing countries looking for ways to emulate China's growth.

²² Although this is often cited as an undisputed quotation of Deng Xiaoping in the early 1980s, there is some doubt as to its validity. Some argue that this quote is entirely a western fabrication to explain China's changing policies. Evelyn Iritani, "Great Idea but Don't Quote Him; Deng Xiaoping's famous one-liner started China on the way to Capitalism." *Los Angeles Times*, Los Angeles, CA: September 9, 2004, A1. <http://lezhou.net/0912/dxp.htm> (accessed March 19, 2007). Whether or not this was a true Deng Xiaoping quote, it typifies the exuberant transformation in the Chinese economy and the boom of private enterprises.

Developing countries with oppressive regimes are especially interested in China's success as a model for economic development under authoritarianism.²³ It is not surprising that developing countries like Venezuela are attracted to China when its leaders observe China's staggering growth compared to other economies in the world.

Beginning in 1978, China implemented major economic reforms. China transitioned from a command economy with a major emphasis on large industrial production to a market economy that offered private enterprises the ability to grow in a competitive market.²⁴ The average peasant became able to build personal savings and then invest it into local economic ventures.²⁵ Ultimately, the reforms resulted in a huge increase in agricultural output that was three to four times higher in 2005 than it was in 1978.²⁶ As the savings grew the primary investment option was the Township-Village enterprises (TVEs), which later became the privatized corporations of today's China. More investment created capital to produce more goods and, in turn, increased personal savings. This ongoing cycle created a major shift in the Chinese economy.

The influx of foreign investment boomed in 1992 when domestic markets were opened to FDI. This investment came mostly from Hong Kong, Taiwan and Macau because there were fewer language and cultural barriers.²⁷ It was advantageous that the reforms occurred incrementally over time. It is unlikely that any level of stability within the Party would have been maintained if all changes had happened at once. Since China's opening in 1992, the enormous population in China has been a great attraction for foreign firms. With a population of 1.2 billion, China is generally viewed as having an enormous market potential. The amount of FDI has grown steadily and today

²³ Saunders, *China's Global Activism*, 17.

²⁴ Naughton, *The Chinese Economy*, 92.

²⁵ Justin Yifu Lin, "The Household Responsibility System Reform in China: A Peasant's Institutional Choice," *American Journal of Agricultural Economics* 69, No. 2 (1987), 410.

²⁶ Naughton, *The Chinese Economy*, 253.

²⁷ *Ibid.*, 403.

accounts for more investment than any other developing country.²⁸ The vast population acquiring Western lifestyles and luxuries also creates the potential for a huge energy demand in the future.

Because China has shown tremendous economic growth, other developing countries are looking for ways to emulate China's success. This gives China an additional measure of influence when dealing with developing countries that are good sources of raw materials. It also gives Beijing the capacity to suggest that China can offer something a partner like the United States cannot; a means to grow while maintaining political stability in authoritarian or non-democratic countries.

2. China Goes Global

There has been a considerable amount of press coverage about China's foreign reserves, particularly in United States currency. As China becomes a global power and expands its influence throughout the economic world, it is building an enormous reserve in U.S. dollars. The International Monetary Fund placed the reserves at \$1.46 trillion in 2006 and estimates reserves as high as \$2.19 trillion by 2008.²⁹ The foreign reserve holdings have grown tremendously over the last decade and are close to half of all the reserves held in the developing world.³⁰ This is only one aspect of China's emerging power and influence in the world today. The remaining section will describe some ways China has expanded into a global power.

a. Chinese FDI

Long before the communist revolution, China had been a major exporter and a recipient of foreign direct investment (FDI). The dream of "opening" China's enormous market dominated Western foreign policy toward China since the Opium Wars

²⁸ Naughton, *The Chinese Economy*, 401.

²⁹ *World Economic Outlook April 2007: Spillovers and Cycles in the Global Economy*, (International Monetary Fund, 2007), 269.

³⁰ *Ibid.*

in the early 1800s³¹ Some arguments attribute China's early modernization and development to FDI while others blame it for China's continued backwardness.³² One truth that Beijing learned from China's history is that the contributors of FDI almost always see a benefit in influence and profit.

During the years of Mao's reign, China's economy was largely closed to the world. In 1977, one year before the beginning of Deng's reforms, China position as a trading nation was 30th in the world and involved less than \$15 billion of total trade.³³ China began to open up to FDI once again in early 1980s and in less than 20 years FDI became greater than one tenth of gross domestic capital formation.³⁴ A major shift began to occur in the early 1990s as the number of Chinese transnational companies increased and as China looked outward for new opportunities.³⁵ Beijing found both the developed and the developing world to be full of potential for economic gain and political clout though investment. China's investments today are global in nature and are often tied to both economic and political gain.

Before 1978, China's overseas investment was relatively insignificant. After the "open" policy began to transform the economy, China's FDI began at a meager \$35 million in 1980.³⁶ By 1991, the amount had grown to over \$900 million.³⁷ This amount grew dramatically to \$6.92 billion as of 2005, according to official government statistics.³⁸ The official figures do not come close to capturing the full magnitude of

³¹ Eric Jones, Lionel Frost, Colin White, *Coming Full Circle: An Economic History of the Pacific Rim*, (Boulder, CO: Westview Press, 1993), 61.

³² Robert F. Dernberger, "The Role of the Foreigner in China's Economic Development" in *China's Modern Economy in Historical Perspective*, edited by Dwight H. Perkins (Stanford University Press, 1975), 33-34.

³³ Henry S. Rowen, "China and the World Economy: The Short March from Isolation to Major Player," in *China, the United States, and the Global Economy*, Shuxun Chen and Charles Wolf, Jr., eds. (Santa Monica, CA: RAND, 2001), 212.

³⁴ Ibid., 216.

³⁵ Kevin G. Cai, "Outward Foreign Direct Investment: A Novel Dimension of China's Integration into the Regional and Global Economy," *The China Quarterly* 160, (1999), 862.

³⁶ Ibid., 860.

³⁷ Ibid.

³⁸ Saunders, *China's Global Activism*, 21.

outbound FDI because they do not include investments funneled through places like the Cayman Islands nor FDI to Hong Kong and Macao.³⁹ Other sources have pegged China's outward flow of FDI as high as \$16.1 billion in 2006.⁴⁰ The same source reported that 81 percent of all the cumulative FDI up to 2005 (over \$57 billion) originated from state-owned enterprises.⁴¹ In perspective, this is less than a tenth of the outward FDI originating in the United States.⁴² The increasing overseas investments show no sign of slowing as demonstrated in the first quarter of 2007 Chinese FDI had already increased 12 percent over 2006 levels.⁴³

Although China's outward FDI ranked 17th among all investing countries in 2005, the United Nations Conference on Trade and Development (UNCTAD) is projecting a significant increase in the near future due to the extremely large foreign reserve holdings.⁴⁴ Also in 2005, China's outward FDI ranked at least fourth among developing countries but may be higher due to incomplete reporting of all activities.⁴⁵ While China's outward FDI is still not a lot compared to the top developed countries, considering the size of the economy, foreign reserve holdings, and place as the third largest trading nation, China's FDI could grow to much higher levels in coming years.⁴⁶

China's outward flow of investment is just one aspect of Beijing's growing international reputation and power. Investments are not devoid of political implications. Chinese media have discussed the growing influence of China in Latin America regarding energy sources and the recognition of Taiwan that is closely tied to

³⁹ Saunders, *China's Global Activism*, 21.

⁴⁰ "Foreign Investment in China," *The U.S.-China Business Council*, 2007, <http://www.uschina.org/info/forecast/2007/foreign-investment.html> (accessed August 23, 2007).

⁴¹ Ibid.

⁴² The U.S. outward FDI flow accounted for \$217 billion in 2006. UNCTAD, *World Investment Report 2007: Transnational Corporations, Extractive Industries and development* (New York & Geneva: United Nations, 2007), 70.

⁴³ "FDI in China grows 12% in first half of 2007" *China View*, July 12, 2007, http://news.xinhuanet.com/english/2007-07/12/content_6367117.htm (accessed August 23, 2007).

⁴⁴ UNCTAD, *World Investment Report 2006: FDI from Developing and Transition Economies: Implications for Development* (New York & Geneva: United Nations, 2006), 55.

⁴⁵ Ibid., 114-115.

⁴⁶ China is ranked as the third largest trading country after the United States and Germany. Ibid., 55.

the inflow of Chinese FDI.⁴⁷ In 2004, Hu Jintao pledged a massive \$100 billion to Latin America in the next decade.⁴⁸ As will be described later, large portions of the investments are intended for Venezuela or are in addition to the pledge.

The growth of FDI is typical of all forms of economic integration with the rest of the world. Generally, the areas receiving FDI also show growth in both Chinese imports and raw material exports to China. An estimated 17 percent of China's FDI flows into the mining industry, which in turn aids China's growing need for raw material imports.⁴⁹

b. Arms Exports

Another way Beijing has expanded China's global influence is through arms exports. Aside from the obvious economic benefit, offering arms to other countries can create political ties and build influence. Conventional Chinese weapons can be found in much of the developing world, even if very few Chinese arms are sold in Latin America. Some research has indicated that China is selling arms in developing countries as a "means of enhancing its status as an international political power, and especially to obtain access to significant natural resources, especially oil."⁵⁰ This seems to fit with the sales to Iran, even amidst protest from the United States, and other oil producing countries. Arms sales are an important indication of which countries Beijing considers strategically significant to its foreign policy. As a measure of intent, this makes the offer of major sales as significant as actual sales.

⁴⁷ "OSC Analysis: China Advances Relations With Latin America," FEA20050624004578 OSC Feature, June 27, 2005 <https://www.opensource.gov> (accessed August 19, 2007).

⁴⁸ Saunders, *China's Global Activism*, 21.

⁴⁹ "Foreign Investment in China," The US-China Business Council, <http://www.uschina.org/info/forecast/2007/foreign-investment.html> (accessed August 23, 2007).

⁵⁰ Richard F. Grimmett, *Conventional Arms Transfers to Developing Nations, 1998-2005* (CRS Report for Congress, October 23, 2006), Order Code RL33696.

China is a proliferator of missile technology as well as a source for convention and small arms for many countries.⁵¹ In the 1980s, Chinese arms sales were primarily for profit. Jane's describes the state of arms sales to the Middle East as having shifted from strictly commercial interests in the 1980s to a more strategic orientation today.⁵² China is building arms sales relationships with countries that are in Beijing's strategic interests such as Egypt, Yemen, Iran and Algeria.⁵³ All of these are positioned to help China protect crucial shipping lanes to protect access to energy or raw materials.

In a similar vein, Beijing has offered to sell fighter aircraft and other weapon systems to Venezuela. The aircraft offer was turned down in favor of Russian fighters; however a deal involving three mobile early warning radars and modern communication satellites was agreed upon in 2005.⁵⁴ China's weapon sales in Latin America are limited, especially compared to the United States and Russia, but the 2006 sales to Venezuela could indicate an opening market for Chinese arms.⁵⁵ Most important to this discussion is the offer of weapons to Venezuela. It indicates that Beijing is working to expand its influence and build ties with Venezuela in yet another area of international relations and not just looking for profit.

⁵¹ China first pledged to abide by the Missile Technology Control Regime (MTCR) in 1991; however, the U.S. Treasury Department currently sanctions a number of Chinese companies for violating the terms of the MTCR. There is evidence that China bypasses the MTCR by selling dual-use technology to Iran. U.S. Department of Treasury, "Nonproliferation," Office of Foreign Assets Control, October 25, 2007, 2 <http://www.treas.gov/offices/enforcement/ofac/programs/wmd/wmd.pdf> (accessed November 15, 2007). Also see, Charles R. Smith, "U.S. Sanctions Chinese Airline," *Newsmax.com*, September 8, 2006, <http://archive.newsmax.com/archives/articles/2006/9/7/112514.shtml> (accessed November 15, 2007). China also exports a number of cruise missile that fall just within the limits of the MTCR.

⁵² "China's Middle East Military Market," *Jane's Islamic Affairs Analyst*, June 5, 2007, http://www4.janes.com/subscribe/jiaa/doc_view.jsp?K2DocKey=/content1/janesdata/mags/jiaa/history/jiaa2007/jiaa5067.htm@current&Prod_Name=JIAA&QueryText= (accessed September 13, 2007).

⁵³ Ibid. The strategic geographic position of these are Iran for access to the Persian Gulf and Caspian Sea, Egypt for access to the Suez Canal, Yemen is positioned to provide security in the Red Sea, and Algeria is well situated in the Mediterranean Sea. As China's expands its economic markets into the world, these are some key shipping lanes that would be good for China to protect and have allies to help protect.

⁵⁴ Kelly Hearn, "China's 'peaceful' invasion," *The Washington Times*, November 20, 2005, Special Report <http://www.washtimes.com/specialreport/20051120-124045-3471r.htm> (accessed June 9, 2007).

⁵⁵ The United States ranks first in all arms sales in Latin America. Richard Grimmett, *Conventional Arms Transfers*, 32. "TIV of arms imports to Venezuela, 1997-2006," *SIPRI Arms Transfers Database*, June 11, 2007, http://www.sipri.org/contents/armstrad/output_types_TIV.html (accessed September 14, 2007).

c. Soft Power

Soft Power refers to the ability for a state to influence other states purely through cultural and ideological means. The influence is indirect and without coercion. For a country to have soft power influence requires a level of international prestige and a demonstrated leadership in world affairs.⁵⁶

Purely in the realm of international status, Beijing has embarked on multiple endeavors to enhance China's status. The 2008 Beijing Olympics is likely to provide a major boost in global standing and has been called a "coming out" party for Beijing. China is spending a reported \$48 billion to promote the Olympics as a symbol of its new stature in the world.⁵⁷ To aid in the promotion, Beijing has enlisted some of Hollywood's best, such as director Stephen Spielberg, to create a remarkable opening ceremony.⁵⁸ Beijing is also billing the event to be a "green" Olympics in an effort to downplay the growing ecological crisis in China.⁵⁹

In October 2003, the first Chinese manned spaceflight was launched. The Shenzhou V mission, a one-man short duration flight, placed China in the elite group of nations to achieve manned space flight.⁶⁰ Two years later, China conducted a two-man five-day space mission.⁶¹ Some authors argue that these missions are primarily for science and research, while others point to their potential military aspects.⁶² To illustrate the positive view China wants to place on such programs one Chinese scholar writes, "China's mastery of manned space flight technology is not a threat to anyone.

⁵⁶ Nye, *Soft power*.

⁵⁷ Mike Hurst, "A Giant Awakens - \$48 bn to kick-start a new era --- Beijing 2008," *The Daily Telegraph* (Australia), Extended Metro Edition, Sport, August 8, 2007, 47. The article also states that Beijing admits to only spending \$8 billion.

⁵⁸ This might backfire if Spielberg pulls out because of the debate over China's involvement in Sudan. Tom Knott, "For Darfur's sake, an Olympic threat," *The Washington Times*, July 30, 2007, C01.

⁵⁹ "China trying to put on a "green" Olympics," *Xinhua News Agency*, August 7, 2007.

⁶⁰ Chang Xianqi and Sui Junqin, "Active Exploration and Peaceful Use of Outer Space," *China Security* 2, 2006, 16.

⁶¹ Marcia S. Smith, *China's Space Program: An Overview*, (CRS Report for Congress, October 18, 2005), 2.

⁶² Chang Xianqi and Sui Junqin, "Active Exploration," 18-19.

Rather, it is a significant step in using high technology to advance world peace and progress of the Chinese nation.”⁶³ This effort is a big step in sending the message that China stands among the great powers of the world, in a peaceful way. The manned space program is a tremendous boost to China’s international image and contributes to Beijing’s soft power.⁶⁴

Beijing is spending \$200 million annually to fund a network of international schools to teach the Chinese language.⁶⁵ This network of Confucian Institutes will provide an increasing number of people who are more sympathetic to China worldwide. Considering the direct funding from the CCP’s National Office for Teaching Chinese as a Foreign Language, it is clear that Beijing sees a benefit to building China’s soft power.

3. China’s Growing Demand for Energy

a. Oil

As one energy expert states, “petroleum has proven to be the most versatile fuel source ever discovered, situated at the core of the modern industrial economy.”⁶⁶ Beijing certainly understands this and is striving to secure enough of this precious resource to meet current and future needs. China is now the second largest energy-consumer in the world after the United States.⁶⁷ China became a net petroleum importer in 1993 and net energy importer in 1996.⁶⁸ Unlike the United States and other developed nations, China lacks sufficient long-term relationships with energy exporters

⁶³ Xianqi and Junqin, “Active Exploration,” 22.

⁶⁴ Wu Chunsi, “Development Goals of China’s Space Program,” *China Security* 2 (2006), 107. The author points to the U.N. Secretary General Kofi Annan statement in 2005 in which he praises China’s success in space and calls it “a step forward for all humankind.”

⁶⁵ Saunders, *China’s Global Activism*, 18.

⁶⁶ Edward Morse, “A New Political Economy of Oil?” *Journal of International Affairs* 53, no. 1 (1999), 2.

⁶⁷ “China,” Department of Energy-Energy Information Agency (DOE-EIA) Country Analysis Brief, August 2006 <http://www.eia.doe.gov/emeu/cabs/China/Background.html> (accessed June 9, 2007).

⁶⁸ Bernard D. Cole, *“Oil for the Lamps of China”: Beijing’s 21st Century Search for Energy* (Washington, D.C.: National Defense University Press, 2003), vii, 15.

to guarantee an uninterrupted supply. This leaves Beijing in a tenuous position of securing new international oil sources to meet future demands in a market that is dominated by the United States.

Like most countries, the production, importation, and refining of oil is a strategic concern for China. There are three major oil companies in China that control almost all aspects of oil production. These are China National Petroleum Corporation (CNPC), the China Petroleum and Chemical Corporation (Sinopec) and the China National Offshore Oil Corporation (CNOOC).⁶⁹ CNOOC and Sinopec together make up 95 percent of the refinery capacity in China. Beijing has not lost control of this valuable resource. All three major oil companies are SOEs in the form of state-controlled holding companies.⁷⁰ This gives Beijing strategic control and influence over the production and distribution of oil and allows the government to lend a hand in financing overseas production and acquisitions.⁷¹

b. Growing Demand

Today, China is facing a potential energy crisis to maintain its rapidly growing economy. Although China relies on coal for 75 percent of its electricity production and for 69 percent of overall energy usage, it is becoming steadily more reliant on oil as demand for energy increases. China's excessive coal use is a major contributor to the growing ecological crisis. Particulates from coal plants are blamed for widespread respiratory problems and acid rain in China.⁷² China is not likely to use oil in place of coal any time soon. The estimated 14,000 new cars that hit the road every day largely fuels China's thirst for oil. It is anticipated that China could have more cars on

⁶⁹ "China: Profile," Department of Energy-Energy Information Agency (DOE-EIA) Country Analysis Brief, August 2006, <http://www.eia.doe.gov/emeu/cabs/China/Profile.html> (accessed September 17, 2007).

⁷⁰ *Ibid.*, 11.

⁷¹ *Ibid.*, 12.

⁷² Elizabeth Economy, "The Great Leap Backward?: The Costs of China's Environmental Crisis," *Foreign Affairs* 86, no. 5, (2007), 40.

the road than in the United States as early as 2040.⁷³ Not only will this place an additional pressure on the environment, it forces Beijing to increasingly find stable, external sources for oil in the future.

China's demand for oil has grown much faster than experts predicted at the beginning of the decade. When the International Energy Agency (IEA) estimated China's growing energy demands in 2002, they predicted a 2.7 percent annual growth through 2030 with oil demand growing at 3.0 percent.⁷⁴ Oil use in 2030 was predicted to reach 12 mb/d and require 83% to be imported.⁷⁵ This proved to be far lower than what actually occurred in the first half of the decade. China's energy consumption growth surprised the planners and grew almost twice as fast as was predicted. The latest IEA prediction (as of 2006) places China's 2030 demand at 20 percent of the world consumption.⁷⁶

China's production of 3.8 million barrels per day places it as the 6th largest oil producer in the world.⁷⁷ Domestic oil production is now far below the national demand which can only be met via the international market. Although domestic production is increasing, it has little hope of catching up to demand as the rates of each continue to diverge.

⁷³ Economy, "The Great Leap Backward?: The Costs of China's Environmental Crisis," 40.

⁷⁴ *World Energy Outlook 2002* (Paris, France, International Energy Agency, 2002), 248-249.

⁷⁵ *Ibid.*, 253.

⁷⁶ Daniel H. Rosen and Trevor Houser, *China Energy: A Guide for the Perplexed*, China Balance Sheet, 2007, 7.

⁷⁷ "China," Department of Energy-Energy Information Agency (DOE-EIA) Country Analysis Brief, August 2006 <http://www.eia.doe.gov/emeu/cabs/China/Oil.html> (accessed June 9, 2007).

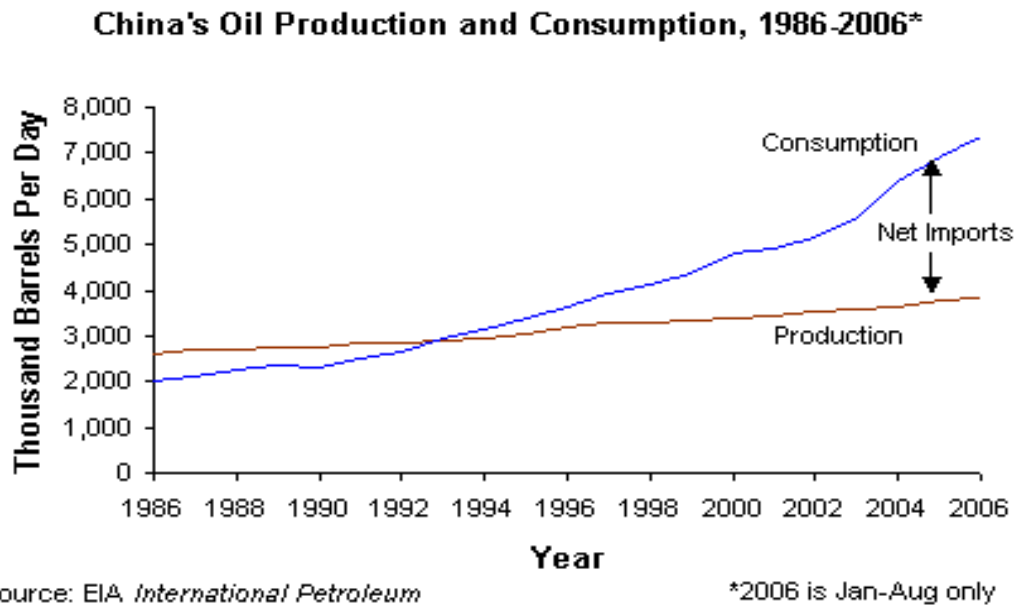


Figure 1. China's Oil Production and Consumption, 1986-2006⁷⁸

Problematically, in 2004 the proven oil reserves in China were estimated to provide only 13 years of production at that year's levels compared to the estimated 40 years for larger producers.⁷⁹ Therefore, China must secure even more sources for oil imports to meet the rapidly growing demand and to replace domestic production as these sources dwindle. The estimates of limited reserves are not limited to China. The more other countries use their reserves, the more dangerous international competition for resources would become.

⁷⁸ "China," Department of Energy-Energy Information Agency (DOE-EIA) Country Analysis Brief, August 2006 <http://www.eia.doe.gov/emeu/cabs/China/Oil.html> (accessed June 9, 2007).

⁷⁹ Naughton, *The Chinese Economy*, 339.

c. Current Imports

China's petroleum imports reached 2.9 million barrels per day (bbl/d) in 2006. This was nearly a 16 percent increase from 2005 levels. The largest percentages of imports in 2006 were from Angola, displacing Saudi Arabia as the previous leader in 2005. Other major import sources include: Iran, Russia, Oman, Congo, Yemen, Equatorial Guinea, and Venezuela.⁸⁰

In one year, Venezuelan crude oil imports increased from 21 thousand barrels per day (bbl/d) to 90.1 thousand bbl/d.⁸¹ As of 2006 Venezuela provided 3 percent of Chinese oil imports. On the surface this does not seem like a major shift but it could be the beginning of a new trend in Sino-Venezuelan relations. Hugo Chavez said in 2006 that he wants Venezuela to provide half a million bbl/d to China by 2011.⁸²

In perspective, China's demand for imported oil is second only to the United States. US daily imports were 13.6 million bbl/d in 2006, approximately four and a half times higher than China's imports.⁸³ The gap between US and China's imports is decreasing. Last year, China accounted for 38 percent of increased demand as compared to the rest of the world.⁸⁴ As long as this trend continues, China could overtake the United States as the world's dominant oil importer in short order.

d. Other Raw Material Needs

Other than coal, China does not have a proportional amount of raw materials for both its size and population. The abundance of coal is offset by a lack of

⁸⁰ "China," EIA, <http://www.eia.doe.gov/emeu/cabs/China/Oil.html> (accessed August 22, 2007). Although media attention would indicate otherwise, Sudan is not a current major oil supplier to China.

⁸¹ Ibid.

⁸² Daniel Schearf, "Venezuela Signs Oil Deal with China," Voice of America News, August 24, 2006. <http://voanews.com/english/archive/2006-08/2006-08-24-voa33.cfm?CFID=120644837&CFTOKEN=42890431> (accessed August 31, 2007).

⁸³ Petroleum Navigator, EIA, <http://tonto.eia.doe.gov/dnav/pet/hist/mttimus2m.htm> (accessed August 27, 2007).

⁸⁴ "China," EIA, <http://www.eia.doe.gov/emeu/cabs/China/Oil.html> (accessed August 27, 2007).

metals and other resources. This has many Beijing planners concerned as they try to secure future economic growth that will depend on access to these resources.

China has been called the “factory of the world” and requires enormous amounts of raw materials to fill its manufacturing role.⁸⁵ According to David Hale, in recent years “China has displaced the United States as the dominant market and price setter for copper, iron ore, aluminum, platinum and other commodities.”⁸⁶ This is not only an indication of growing economic prosperity for China but is also indicative of the challenges Beijing is faced with to maintain its economic growth. In the case of refined copper, China’s imports have risen from 20,000 tons to 1.2 million tons in 13 years.⁸⁷ China’s demand now accounts for 22 percent of the global copper yield.⁸⁸ Balanced against China’s meager six percent of the world’s copper reserves, Beijing’s foreign policy is clearly not only about the oil.⁸⁹

The need for material is not limited to manufacturing alone. The rapid growth of urban areas in China has fueled an enormous demand for steel, cement and other construction-related materials. China’s imports of iron ore have increased ten-fold in barely over a decade.⁹⁰ As of 2004, some attributed the recent major rise of shipping rates as a symptom of China’s demand for raw material in the world market.⁹¹

e. Security Implications for China

The Chinese Communist Party has placed a major part of its legitimacy on economic growth and is therefore facing a growing security challenge. Beijing cannot allow the economy to take a major downturn without risking a social and political

⁸⁵ Wang Qingyi, “Energy Conservation as Security,” *China Security* (Summer 2006), 91.

⁸⁶ David Hale, “China’s Growing Appetites,” *The National Interest* 76 (2004), 137.

⁸⁷ *Ibid.*, 138.

⁸⁸ David Hale, “Commodities, China, and American Foreign Policy,” *The International Economist* 20, no. 3 (2006), 16.

⁸⁹ David Hale, “China’s Growing Appetites,” 139.

⁹⁰ *Ibid.*, 138.

⁹¹ *Ibid.*

upheaval throughout the country. To maintain economic growth, it is imperative that energy and raw material imports are maintained without interruption.

It is especially critical for the CCP that the flow of oil is maintained, as demonstrated previously. With the hope of safeguarding against disruption, the Chinese government has already taken steps toward better security. Beijing announced in 2005 the intention to build a strategic reserve from domestic production that would help secure the country oil supply.⁹² The above ground strategic reserves should be completely filled by the end of 2008, with total storage reported to be 400 million barrels.⁹³ A former energy official said the ultimate goal is to have a 90-day reserve.⁹⁴ As this will only help in the event of minor disruptions or delays, China must find additional means to deal with the insecurity of the international environment.

In one instance, there is evidence that China may not be playing by the rules of the international oil market. In 2006, a Chinese businessman made a clever offer to BHP Petroleum in South America after BHP had made a recent oil discovery offshore Trinidad.⁹⁵ The offer was for China to pay for the installation of a second oil platform for BHP, with the understanding that all oil from that well would be sold exclusively to China at market prices.⁹⁶ As of this writing, it is unknown how BHP responded to the offer, but it does indicate that China is considering unorthodox methods to secure its petroleum sources in the future.

⁹² Fu Jing, "China to build up strategic oil reserves," *China Daily*, September 14, 2005, http://www.chinadaily.com.cn/english/doc/2005-09/14/content_477628.htm (accessed September 12, 2007).

⁹³ Christopher J. Neely, "China's Strategic Petroleum Reserve: A Drop in the Bucket," *National Economic Trends*, (January 2007), 1, also available at <http://research.stlouisfed.org/publications/net/20070101/netpub.pdf> (accessed September 12, 2007).

⁹⁴ "China's strategic reserve to see oil by year's end," *China View*, July 5, 2005, http://news.xinhuanet.com/english/2005-07/05/content_3176510.htm (accessed September 12, 2007).

⁹⁵ Due to the direct benefit to China rather than a more profit-oriented approach (such as selling the oil to the highest bidder rather than exclusively to China) it is reasonable to assume that the Chinese businessman was representing Beijing's interests.

⁹⁶ Interview with a BHP security executive, July 2, 2007. The interviewee was involved with the Trinidad project in 2006. The executive is no longer with the company. Generally it would be considered "by the rules" for oil to be offered to the world market and not designated for a single consumer. In the case of Trinidad oil, it would be more appropriate to sell oil to local customers or to the country with the appropriate refinery capacity. By locking-up specific resources, China is bypassing the supply-demand aspect of the global market and giving other importers fewer options for oil sources.

The insecurity felt by Beijing is evident in other investments as well. Beijing is not willing to rely solely on foreign transportation infrastructure to supply the oil needs of China. Beijing's goal is for Chinese owned tankers to handle half of all oil imports by 2010.⁹⁷ The Jiangnan Shipyards Corp is already working with a Canadian firm to produce Chinese flagged double-hulled oil tankers to meet the rising demand.⁹⁸

Another means to secure oil is through military strength. This could be in the form of a navy capable of protecting tanker transit through the Malacca Straits, or of deployed ground forces to secure oil production in unstable areas.⁹⁹ This is not necessarily a threat to United States interests as long as there are sufficient oil supplies to meet the demand in China and the United States. Given the projected increase in demand, it could become less an issue of common interests and more of competition if world production fails to meet the growing demand.

4. Beijing's Approach toward Venezuela

Beijing has quietly built a relationship with Venezuela in recent years. In the last decade, this has become an economic partnership and accounted for a large investment in Venezuela by China. Chinese aid packages to Venezuela are considerably smaller than the amount of aid sent to Argentina and Brazil.¹⁰⁰ However, Venezuela is already becoming oil rich compared to the rest of Latin America and is in need of less aid. Instead there are many business deals that are creating stronger ties between the two countries and building both economies.

Beijing has the benefit of a strong supporter in Venezuela. The government of Venezuela has taken a highly antagonistic stance towards the United States and has

⁹⁷ Gabe Collins, "China seeks oil security with new tanker fleet," *Oil & Gas Journal* 104, no. 38 (2006), 20.

⁹⁸ Collins Alt, "China Business," *China Business Review* 29, no. 6 (2002), 40.

⁹⁹ One report states that China has already deployed 4,000 troops to secure oil production in Sudan. Bill Gertz and Rowan Scarborough, "Chinese in Sudan," *Inside the Ring*, March 5, 2004. <http://www.gertzfile.com/gertzfile/ring030504.html> (accessed November 14, 2007).

¹⁰⁰ Phillip C Saunders, *China's Global Activism*, 45.

recently implemented nationalization of its foreign-owned oil fields.¹⁰¹ The growing political tension between Washington and Caracas creates an international relations vacuum for Beijing to exploit.

Beijing's growing relations with Venezuela are only inhibited by its reluctance to provoke the United States. China will continue to avoid being dragged into Chavez' anti-United States rhetoric and inflammatory accusations. At the same time, China's relationship with Venezuela will only grow stronger the more FDI and trade deals are generated between them. As China invests more money and depends more on foreign supplies of oil it would not be unreasonable to expect China to initiate greater strategic cooperation between the two countries to protect its interests. With strong rhetorical support from Venezuela, as well as from its own efforts, China's regional prestige is building. The soft power benefits in Latin America of Venezuelan support could assist Beijing's efforts to co-opt additional strategic allies in the region, or at least help draw in previous Taiwan supporters.

All other concerns for China are mostly peripheral to meeting its energy needs in the future. It is a vital interest of the United States to lure Venezuela away from a Sino-Venezuelan alliance to protect America's oil supply and promote the cause of spreading liberal democracy in the world. China is not yet a direct challenge to the United States' overwhelming dominance in Latin America, but that may begin to change in the near future.

B. VENEZUELA

Venezuela's past has an effect on its current politics and policies. The past (particularly the Bolivar revolution) has a resonance in present political rhetoric and is often referenced by the current leadership. Venezuela's historical interaction with China is limited to recent times but as it relates to the United States, history matters. A few key points in history will be discussed in this chapter as well as a description of the present day leadership and politics in Venezuela.

¹⁰¹ Andy Webb-Vidal, "Venezuela Takes Control of Private Oilfields," *Financial Times*, January 3, 2006.

1. Monroe Doctrine

Venezuela has been a part of the American foreign policy landscape from the early years of the Republic. In 1823, shortly after the Bolivar revolution began in Latin America, President James Monroe enunciated the United States policy toward Europe and its southern neighbors that became known as the Monroe Doctrine.¹⁰² In his address to Congress, President Monroe stated that the United States would not allow the European powers to further colonize any part of the Americas or interfere in the affairs of the Americas. One perspective is that the intent was to prevent any European powers from meddling in America's backyard.¹⁰³ The doctrine has been intermittently honored and sometimes violated by European powers, however it has remained a starting point (or perhaps a fallback position) for American policy makers to justify actions toward Latin America in the years since.¹⁰⁴

The United States formally recognized Venezuela as an independent and sovereign nation in 1836.¹⁰⁵ From the American perspective, this brought Venezuela into the fold of the Monroe Doctrine. Venezuelan leaders began to invoke the Monroe Doctrine for the United States to intercede on behalf of Venezuela in disputes with European powers.¹⁰⁶ When European powers overstepped their welcome in the Americas, the United States pushed back with the Monroe Doctrine. In the 1850s, both

¹⁰² In a speech to congress on December 2, 1823, President Monroe discussed many issue of the day that included the two mentions of his policy toward European powers (mostly about Russia and Spain) not setting up new colonies in the Americas. It was not until 1853 that the term "Monroe Doctrine" was actually coined to refer to this portion of his speech. Frank Donovan, *Mr. Monroe's Message: The Story of the Monroe Doctrine* (New York: Dodd, Mead and Company, 1963), 2-4.

¹⁰³ The phrasing, "meddling in America's backyard" is to illustrate the senior/junior relationship between the U.S. and Latin America. Although the United States has been a dominant factor in all foreign policy and domestic politics in many Latin American countries, the relationship is sometimes viewed with resentment and frustration at the relative inequalities.

¹⁰⁴ It was immediately adopted in American foreign policy but later took root as a almost a core value of foreign policy goals. For additional data of the invocations of the Monroe Doctrine see Dexter Perkins, *A History of the Monroe Doctrine* (Boston, MA: Little, Brown and Company, 1955). A more recent example of the Monroe Doctrine in action could be the 1962 Cuban Missile crisis; although the security threat that nuclear weapons in Cuba posed to the United States was the greater issue at the time.

¹⁰⁵ Sheldon Liss, *Diplomacy and Dependency: Venezuela, The United States, And the Americas* (Salisbury, North Carolina: Documentary Publications, 1978), 10.

¹⁰⁶ *Ibid.*, 11.

U.S. and British warships were common sights in Venezuelan ports as each country attempted to leverage markets in their favor.¹⁰⁷ Venezuelan officials were careful not to lean to one power over the other too strongly for fear of upsetting the balance. It was understood in Venezuelan politics that signing treaties could be seen as an aggressive action toward the unsigned party.¹⁰⁸ Whether current leadership in Venezuela is adopting similar policies (in spite of the rhetoric) or is now leaning more heavily away from the United States remains to be seen.

2. Oil

At the beginning of the 20th century, oil was discovered in Venezuela. The first years produced only a miniscule amount of oil. As the importance of this great resource began to emerge in the world, Venezuela became a major supplier. Before the Middle Eastern dominance of the oil market, Venezuela was one of the top oil exporters in the world. For most of the twentieth century, oil has been the dominant export for Venezuela and a central feature of the economy.¹⁰⁹

Venezuela first began production of oil in 1917, and that year exported 57,000 barrels of oil. Within only 4 years, exports grew to more than one million barrels.¹¹⁰ This booming growth took place during World War I when the global demand for oil was dramatically increased to fuel the machines of war. By 1959, Venezuela provided 14 percent of the world's total oil.¹¹¹ Demonstrating a global leadership among oil exporters, Venezuela was a founding member of the Organization of Petroleum Exporting Countries (OPEC) in 1960.¹¹²

¹⁰⁷ Liss, *Diplomacy and Dependency*, 13.

¹⁰⁸ Ibid.

¹⁰⁹ Guillermo Moron, *A History of Venezuela*, edited and translated by John Street (London: George Allen & Unwin LTD, 1964), 224.

¹¹⁰ Ibid., 225.

¹¹¹ Ibid.

¹¹² "Venezuela," DOE-EIA, August 2006.

Oil has been a major part of the Venezuelan economy for decades. Recent numbers from official U.S. sources states that in 2005 the petroleum industry provided approximately 15 percent of Venezuela's GDP and roughly 90 percent of its exports earnings. Also in 2005, approximately "half of the central government's ordinary revenues" came from the petroleum industry.¹¹³ Clearly this is a vital sector of the economy and a vital interest to the Chavez regime. In 2004, the Venezuelan government voted to increase its royalties on production of Orinoco heavy crude by international oil companies from one percent to over 16 percent.¹¹⁴ As revenues increase, so does government interest in the source.

Venezuela's reserves of 79.7 billion barrels were considered to make up approximately six percent of the world's proven reserves.¹¹⁵ This is changing as the Venezuela Energy and Oil Ministry reports new findings that bring the total proven reserves to 100 billion barrels.¹¹⁶ If Venezuelan estimates of more than 200 billion barrels still waiting to be certified are accurate, Venezuela may have the largest oil reserves in the world.¹¹⁷ It is important to note that some insiders are questioning the methods used to certify the actual reserves.¹¹⁸ If the additional estimates of reserves are proven, Venezuela's influence in OPEC and as a supplier to the world's major economies will also likely to increase.

¹¹³ "Background Note: Venezuela," *Bureau of Western Hemisphere Affairs* (February 2007), U.S. Department of State website, <http://www.state.gov/r/pa/ei/bgn/35766.htm> (accessed September 28, 2007).

¹¹⁴ Ibid.

¹¹⁵ EIA Statistics available at <http://www.eia.doe.gov/emeu/international/reserves.html> (accessed October 10, 2007).

¹¹⁶ Matthew Walter, "Venezuela's Proven Oil Reserves Rise to 100 Billion Barrels," *Bloomberg.com*, October 7, 2007, available at http://www.bloomberg.com/apps/news?pid=20601086&sid=aaI3fdsVdKLk&refer=latin_america (accessed October 10, 2007).

¹¹⁷ Ibid. At 300 billion barrels, Venezuela would surpass the present largest reserves of Saudi Arabia of 262 billion barrels.

¹¹⁸ "Ministry certifies 100Bb of Orinoco reserves, insider says move political," *Business News Americas*, October 9, 2007.

3. Politics

Over the years since Venezuela became an independent sovereign nation, there have been a variety of democratically elected governments and military dictators. In 1948 the democratic government of Romulo Gallegos was overthrown and replaced by a military junta.¹¹⁹ After a rapid succession of junta leaders another military leader took control of the election process and claimed victory. Perez “The General” Jimenez would rule for the next six years.¹²⁰ He was considered a power hungry dictator and despot who curtailed liberties and considered the democratic process a nuisance to his agenda.¹²¹ Nevertheless, during his reign, Venezuela was the top oil exporter in Latin America and secured new oil deals with the United States.¹²² There have been some allegations that the United States supported the military coup in 1948 so as to maintain good relations with Venezuela. Venezuela was a major trading partner for the United States and it was not in the U.S. interest to weaken those ties, even if publicly American leaders criticized the military takeover.¹²³

Finally, in 1958, democracy was restored to Venezuela by a coalition of political groups. The newly elected President Romulo Betancourt was dedicated to democratic principles and sought to prevent future military dictatorships from taking hold in Venezuela and in all of Latin America. Known as the Betancourt Doctrine, his policies did have an impact in creating an anti-dictatorial movement on the continent.¹²⁴ Until recently, Venezuela remained a strong democracy with civilian leadership. In 1961, a new constitution was drafted to secure the restored democratic traditions and create a democratic foundation for future generations.¹²⁵

¹¹⁹ Moron, *A History of Venezuela*, 215.

¹²⁰ Ibid., 144.

¹²¹ Ibid., 145.

¹²² Ibid., 146.

¹²³ Ibid., 155.

¹²⁴ Ibid., 185.

¹²⁵ Ibid., 179.

Venezuelan democracy has been relatively stable from 1958 until the 1990s. It is important to note that Venezuela is accustomed to military leadership and coup attempts. This matters when considering the likely success of future transitions to new governments and even constitutions. People's trust in the democratic system was shaken when in 1992, a group of army colonels attempted yet another coup.¹²⁶ Led by Col. Hugo Chavez, the coup was unsuccessful, but it helped lay a foundation for Hugo Chavez's future presidential campaign and subsequent election.

4. Hugo Chavez

When Hugo Chavez came into power by popular election in 1998 it signaled a new direction for U.S.-Venezuelan relations and even the foundation of Venezuelan politics. Chavez has instituted sweeping changes in almost every sector of the economy and has changed the core democratic nature of Venezuelan politics. Almost immediately after the election, Chavez put on the referendum a proposal to rewrite the constitution. This was one of many planned steps toward bolstering his own power but placing the proposal to referendum deferred the fears that he would create another dictatorship.¹²⁷

a. Socialism

Since his election in 1998, Chavez has repeatedly touted his goal of transforming Venezuela into strong socialist state. A number of steps have already been taken toward socialism by the nationalization of many industries that were formerly privately owned. The most important sector of the economy, oil, was largely nationalized in 2006, excluding previously invested foreign firms from developing oil fields in Venezuela.¹²⁸ Major companies that provided electric power generation and telecommunications were nationalized in the beginning of 2007.¹²⁹ In May 2007,

¹²⁶ Harold Trinkunas, *Crafting Civilian Control of the Military in Venezuela: A Comparative Perspective* (Chapel Hill, NC: University of North Carolina Press, 2005), 1.

¹²⁷ Richard Gott, *In the Shadow of the Liberator: Hugo Chavez and the transformation of Venezuela* (London: Verso, 2000), 154.

¹²⁸ M. Ron Wahid, "Venezuela's takeover; Chavez taunts U.S. and others," *Washington Times*, May 10, 2006, OPED, A23.

¹²⁹ Simon Romero, "Chavez Moves to Nationalize 2 Industries," *New York Times*, January 9, 2007, 3.

Chavez said he might nationalize other industries such as banking and steel production.¹³⁰ Recently, Chavez has threatened to nationalize private schools that refuse to educate students according to a new system that includes writings of Karl Marx and speeches of Fidel Castro.¹³¹

The Chavez government's takeover of many aspects of the economy in Venezuela has two major consequences in Venezuelan politics. The country is being led into socialism and Chavez is attaining greater dictatorial power as the government takes control of the major means of production and the economy. This places a significant amount of the oil imports of the United States in the control of a single person who repeatedly states his dislike of the United States and its foreign.

b. Dictator or Liberator?

When the National Assembly granted Chavez the legal ability to “rule by decree” in January 2007, it became clear that Venezuela would continue to stray far from democratic institutions established decades earlier.¹³² It is currently a topic of debate whether or not Venezuela is becoming a true dictatorship. Chavez paints a picture of himself as a ‘liberator’ of the lower class and defender of their rights as part of his Bolivarian Revolution. His reform goals are to make the country strong and help bring the masses out of poverty.

A central facet of Chavez's humanitarian work in Venezuela is the *misiones* (missions) program. “Missions” is a social services effort, which has given food, medical care and other services to the poor of Venezuela since 2003.¹³³ The various missions are supported primarily by the large oil revenues that Venezuela has

¹³⁰ Rory Carroll, “Chavez warns banks and steel firm may be nationalized,” *Guardian* (London), May 5, 2007, 26.

¹³¹ “Chavez to nationalise schools,” *Evening Standard* (London), September 18, 2007, 22.

¹³² “Rule by decree passed for Chavez,” *BBC News*, January 19, 2007
<http://news.bbc.co.uk/2/hi/americas/6277379.stm> (accessed August 3, 2007).

¹³³ Mark Sullivan, *Venezuela: Political Conditions and U.S. Policy*, CRS Report to Congress, 2007, RL32488, 19.

enjoyed in recent years due to high international prices.¹³⁴ The missions have been successful in improving the lives and health for many Venezuelans living in poverty and have decreased the numbers of impoverished citizens. Since Chavez took office, the percentage of Venezuelans living below the poverty line has decreased from 49.4 percent in 1999 to 37.1 percent in 2005.¹³⁵ Most of that improvement was after the implementation of the missions program.

The initiative has not been without its political implications for Chavez. The official Venezuelan government website has information about the various missions interlaced with anti-capitalist rhetoric and strong political commentary against “imperialists.”¹³⁶ Winning over less affluent sectors in Venezuela was a major factor in Chavez’s re-election in 2006. Overall, it has been a positive program for the poor of Venezuela. Critics argue that the missions are not sustainable because of the volatility of oil revenue and they do little to change root causes of the conditions for poverty.¹³⁷ The program establishes a precedent for broader socialism in Venezuela and therefore has an ideological basis for Chavez.

On the other hand, Chavez has acted unilaterally to shut down voices of dissent. In June 2007, his government refused to renew the broadcasting license of a popular television station. By forcing the closure of Radio Caracas Television, one major domestic critic of Chavez was silenced after 53 years of broadcasting.¹³⁸ Closing a long-running television station did not just mute one voice, it warned others media companies to only report pro-Chavez content to stay in business. Later in the same month, Chavez said in a speech that foreign journalists who criticized his government would be

¹³⁴ Sullivan, *Venezuela*, 19.

¹³⁵ United Nations Economic Commission for Latin America and the Caribbean, *Social Panorama of Latin America 2006* (Santiago, Chile: United Nations Publication, 2007), 65.

¹³⁶ Venezuelan government’s official website, “Mision Alimentacion,” <http://www.misionesbolivarianas.gob.ve/misiones/mision-alimentacion.html> (accessed October 10, 2007).

¹³⁷ Sullivan, *Venezuela*, 21.

¹³⁸ Simon Romero, “Chavez threatens protests and media,” *International Herald Tribune*, June 2, 2007, 4.

deported.¹³⁹ Although some analysts have said that this is merely speechmaking and is unlikely to be implemented, it also demonstrates a transition away from a democratic debate and healthy criticism in journalism in Venezuela.

Recently, Chavez began touting his immense popularity as a basis for constitutional reform that would allow unlimited re-elections.¹⁴⁰ This would allow him to remain in power for life as long as he retains popular support (or is able to manipulate the election process). This will be an important step in his goals toward socialism and possibly dictatorship creating the legal basis for perpetual re-elections and lifelong rule.

The bigger question is: what are Chavez's long-term goals for Venezuela and the region? As Chavez garners additional power and continues with his ideological attack on the United States, there is a potential for the emerging dictator to become a threat to regional stability and the interests of the United States. It is not difficult to see where Chavez would like to see Venezuela go in the future, but it is less obvious what China will do to support these goals and be a balancer against traditional U.S. dominance in the region.

c. Stated Goals

Hugo Chavez has publicly stated his long-term strategic goals on a number of occasions. In summary, he wants a total transformation in Venezuela and all of Latin America. He hopes to overturn the international political framework that has been in place for decades and remove the United States from its "hegemonic" position.

Chavez's methodology is also openly discussed in Venezuela, and he often presents it to the world stage for all countries to consider. He is a strong believer in "fourth generation" warfare as the best means to subvert U.S. dominance.¹⁴¹ He has said he intends to someday launch a "super-insurgency" to topple the United States and create

¹³⁹ Rory Carroll, "International: Criticize me and you're out, Chavez warns foreigners: Venezuelan leader threatens deportations: Government proposes end to presidential term limit," *Guardian* (London), July 24, 2007, 14.

¹⁴⁰ Simon Romero, "Open-Ended Term Gets Push From Chavez," *New York Times*, August 16, 2007.

¹⁴¹ William Ratliff, "Will China dance to Chavez's tune?: For Beijing, Venezuela's anti-American leader offers opportunity and danger," *Los Angeles Times*, August 25, 2006, Home edition, B13.

a massive socialist state for all of Latin America. This design has played well in domestic politics among the poor in Venezuela and is gaining support in other Latin American countries. It is probably more the idea of change rather than the actual end result that is attractive to many disadvantaged people in the region.

Chavez has been particularly vocal about his desire to align with China to create a defensive relationship against the United States. In a 2006 meeting with Chinese leaders, Chavez said, “We are creating a strategic alliance with the strength of the Great Wall.”¹⁴² Statements such as this are a far cry from the U.S. view of Venezuela in the context of the Monroe Doctrine. In the view of the United States, Venezuela has been able to count on the Monroe Doctrine as a level of protection from foreign intrusion. However, Chavez is leaning toward China for a strategic partnership (or possibly alliance) as a means of balancing the overwhelming dominance of the United States in Latin America.¹⁴³

5. United States/Venezuela Relations

a. U.S. Energy Imports From Venezuela

Beyond a shared colonial heritage, the Monroe Doctrine, or geographic proximity, the strongest linkage between the United States and Venezuela is the oil industry. At its height in 1960, Venezuela provided half all the oil imported to the United States.¹⁴⁴ When the United States became a net oil importer in 1975, Venezuelan oil accounted for approximately six percent of all petroleum imports. After a brief decline in significance, Venezuelan oil became a prominent source of oil by 1985 by providing over 300 thousand barrels a day. Venezuela’s oil exports to the United States peaked in the

¹⁴² Chris Kraul, “The World; Chavez Says China Backs Security Council Bid; The U.S. opposes a move by Venezuela to seek a seat on the U.N. body. In Beijing, the Latin leader also announces a deal to triple oil exports,” *Los Angeles Times*, (August 25, 2006), A5.

¹⁴³ A Venezuelan newspaper quotes Venezuelan Foreign Minister as saying “Venezuela has a ‘close, deep’ strategic alliance with China.” “FM Maduro Praises Venezuela-China’s alliance,” *El Universal.com* (Caracas), November 15, 2007. http://buscador.eluniversal.com/2007/11/15/en_pol_art_fm-maduro-praises-ve_15A1197637.shtml (accessed November 16, 2007).

¹⁴⁴ “Venezuela,” EIA, <http://www.eia.doe.gov/emeu/cabs/Venezuela/Oil.html> (accessed September 27, 2007).

mid-1990s at almost 20 percent and have declined ever since the election of Hugo Chavez. In 2006, Venezuela's share of United States oil imports was over 11 percent.¹⁴⁵

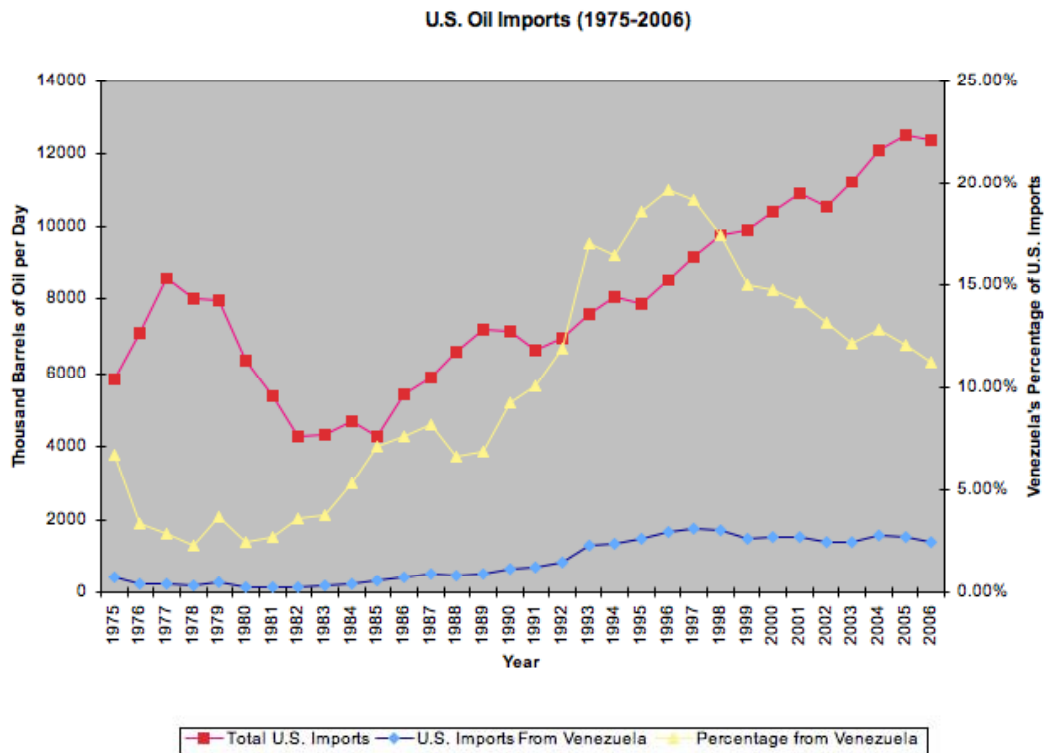


Figure 2. U.S. Oil Imports, 1975-2006.¹⁴⁶

Although Venezuela is not the largest provider of oil to the United States, it is clearly a significant source of crude oil and petroleum products. Canada remains the most significant source of foreign oil to the United States and has increased exports dramatically over the last decade. Saudi Arabia provided 11.8 percent of oil imports to the United States, the most out of all the OPEC members.¹⁴⁷ Venezuelan imports were only marginally lower than Saudi Arabian oil.

¹⁴⁵ All data can be found at the DOE/EIA websites, <http://tonto.eia.doe.gov/dnav/pet/hist/mtntus2a.htm> and <http://tonto.eia.doe.gov/dnav/pet/hist/mcrimusve2A.htm> (accessed September 9, 2007).

¹⁴⁶ Data can be found at various links within the DOE/EIA website. <http://www.eia.doe.gov/> (accessed October 9, 2007). Data from 1993 onward reflects both Venezuelan crude and other petroleum products.

¹⁴⁷ "U.S. Net Imports by Country," DOE/EIA 2007, http://tonto.eia.doe.gov/dnav/pet/pet_move_net_a_ep00_IMN_mbbldpd_a.htm (accessed October 9, 2007).

b. Current Political Differences

As China's involvement in Venezuela increases and a larger share of Venezuelan oil is exported to countries other than the United States, Washington will lose even more influence in the country and the region. It is in the U.S. interest to maintain relations with Venezuela, if not on political levels than at least in terms of economics. The less Venezuela depends on the United States for its economic health, the greater the risk of conflict in the region due to the volatility of Chavez's politics and his continental aspirations. Other close allies in the region have already felt threatened by Venezuela's aggressive behavior and will feel even less secure if the influence of the United States wanes further.¹⁴⁸

While Chavez is aligning his country closer to China, he is also picking up allies in Latin America. One is Bolivia, where the United States has had large aid packages for healthcare, roads and other quality-of-life programs in the past. Now, with the help of petrodollars, Venezuela has become a major aid contributor and is viewed more favorably than the United States.¹⁴⁹ The turning away from the United States is not based solely on Venezuelan aid; U.S. foreign policies and a common ideology with Venezuela are also factors in Bolivian disfavor towards the United States. This gives China increasing leverage in the region when its interests are in line with Venezuela's and presents the United States with a potential antagonistic alliance in the south.

Threats of cutting oil exports to the United States are not confined to Chavez's political rants. Although he has repeatedly attacked the United States government and President Bush personally, there is a growing sense that Venezuela is

¹⁴⁸ Interview with a Colombian naval officer that took place on October 8, 2007. The interviewee was involved in preparations for a possible war with Venezuela in 2005. He stated that there was an escalation of tension and the potential for war between Columbia and Venezuela during a period of strained relations in early 2005. He also expressed concern over Venezuela's rapid acquisition of advanced weapon systems. Also see Daniel Howden, "Anger in Andes at Rebel Boss Kidnap," *Independent* (London), January 15, 2005 and Andy Webb-Vidal, "Chavez goes shopping for guns and Migs as Colombia looks on nervously" *Financial Times* (London), November 30, 2004, 2.

¹⁴⁹ Juan Forero, "U.S. Aid Can't Win Bolivia's Love as New Suitors Emerge," *The New York Times*, May 14, 2006, Late Edition, 4.

committed to exporting to other markets. Venezuela's oil minister, Rafael Ramirez, warned that Venezuela could shift its exports to markets other than the United States because of perceived aggression from the latter.¹⁵⁰

Venezuela has demonstrated a willingness to accept financial losses in oil revenue for the purpose of political gain. In 2006, it was reported that Venezuela sold oil at subsidized rates to Argentina, Bolivia, Paraguay, Cuba and Uruguay.¹⁵¹ Oil sales of 100,000 bbl/d to Cuba have been discounted by 40 percent.¹⁵² This would indicate that the potential loss of revenue due to transportation costs to China would be less important for Caracas than the potential political gain.

C. JAPAN AND THE UNITED STATES

For a perspective on China's future oil demand it should be compared to the projected requirements for the United States and Japan. Although China's demand is growing faster than other big players in the world market, it is not alone in its need for more oil to fuel economic growth in the future. Demand in the United States is projected to increase by one percent per year on average until 2030.¹⁵³ The proven reserves in the US offer only nine years of production at present rates.¹⁵⁴ This is even more critical than in China and suggests that the amount of U.S. imports will rise dramatically in the next decade. China and the United States will be in a similar position as Japan by importing nearly all petroleum by 2030.

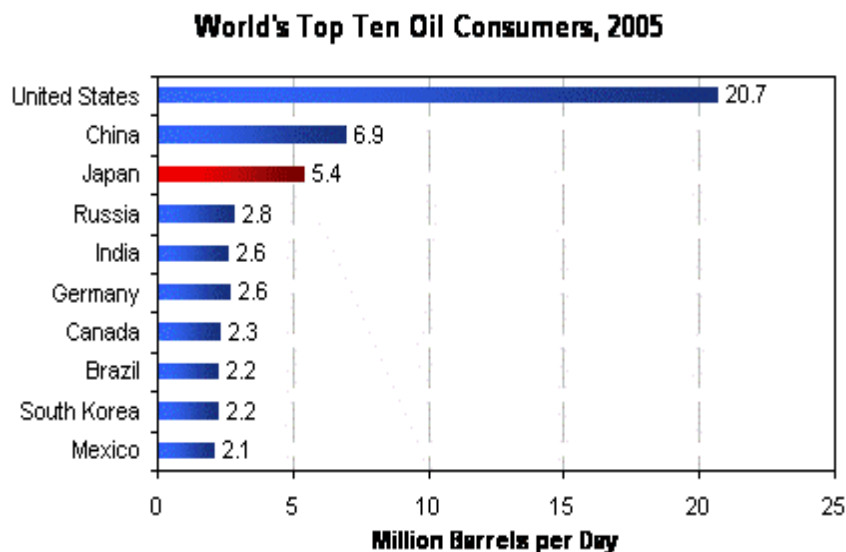
¹⁵⁰ Juan Forero, "Venezuela warns the U.S. it may cut back oil exports," *The International Herald Tribune*, February 28, 2006, News, 5.

¹⁵¹ Greg Morsbach, "Venezuela basks in oil 'bonanza'," *BBC News*, February 17, 2006. <http://news.bbc.co.uk/2/hi/americas/4713404.stm> (accessed November 20, 2007).

¹⁵² Cesar J. Alvarez, "Venezuela's Oil-Based Economy," *Council on Foreign Relations*, (November 27, 2006) http://www.cfr.org/publication/12089/venezuelas_oilbased_economy.html (accessed November 20, 2007).

¹⁵³ EIA statistics.

¹⁵⁴ *International Energy Outlook 2007*, Energy Information Administration, <http://www.eia.doe.gov/oiaf/ieo/pdf/oil.pdf> (accessed September 4, 2007), 38.



Source: EIA *Short Term Energy Outlook* (November 2006)

Figure 3. World's Top Ten Oil Consumers, 2005¹⁵⁵

In 2006, Japan's oil imports were 5.2 million bbl/d, nearly twice that of China.¹⁵⁶ Japan's economy is completely reliant on stable imports and therefore it is in Japan's vital interest to create a stable system for the future. Unlike the US and China, Japan has virtually no domestic production of oil. Therefore, although Japan is third in consumption, it is the second largest importer of petroleum.¹⁵⁷ The demand for oil has increased very slowly over the last two decades and will not likely grow too fast in the future. Still, with increased demand in other countries, Japan faces a tough road ahead since it lacks domestic production as a safety net. Tokyo has been proactive in preparing for this prospect. In April 2007, Tokyo presented Abu Dhabi at least one billion dollars in low interest loans to increase its oil production and secure stable imports for Japan in

¹⁵⁵ "Japan," U.S. Department of Energy, Energy Information Agency (DOE-EIA) Country Analysis Brief (August 2006) <http://www.eia.doe.gov/emeu/cabs/Japan/Oil.html> (accessed November 9, 2007).

¹⁵⁶ "Top World Oil* Producers and Consumers" *Energy Information Administration*, http://www.eia.doe.gov/emeu/cabs/topworldtables1_2.htm (accessed August 31, 2007).

¹⁵⁷ Japan's domestic crude oil production has been relatively stable at 6,000 bbl/day. "Japan", *EIA* <http://www.eia.doe.gov/emeu/cabs/Japan/Oil.html> (accessed September 4, 2007).

the future.¹⁵⁸ This sort of direct investment is necessary for both the US and Japan to meet future needs, but it also ties the economic interests of the importing countries to the stability of the invested exporting countries.

¹⁵⁸ “Japan to aid Abu Dhabi for stable oil supply,” *The Japan Times Online*, April 30, 2007, <http://search.japantimes.co.jp/mail/nn20070430a2.html> accessed September 4, 2007.

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III. CHINA'S PEACEFUL RISE?

There is little debate that China is rising fast and becoming a major power in the world today. As China becomes more intertwined with Venezuela (a regime that is highly antagonistic towards the United States) it is important to examine China's growing power and influence in the world today. Does China's increasing power present the United States with a future partner in global affairs or a challenge to national security? The importance of Sino-Venezuelan relations to the United States is partly based on China's ability to compete with the United States economically, militarily, and politically in Latin America and the world.

A. NEW ORDER

1. Economic Power

China has become such a strong player in the world's economy that, according to a recent article in the *Economist*, consumer spending in China has grown to the point that a recession in the United States need not hurt the global economy.¹⁵⁹ Although this assertion is not the total picture of the Chinese or the global economy, it does demonstrate the transformation China has experienced in recent years. China is not viewed as just having a large GDP but is now being considered in terms of consumer spending.

China's growing economic power presents developing countries with another option for aid, FDI and trade beyond the traditional Western options. With China, the developing countries seeking economic gain can be assured of a non-interference approach toward their domestic politics and human rights record.¹⁶⁰ Nevertheless, Beijing is not above using economic enticements to affect the foreign policies of other

¹⁵⁹ "Stronger China," *The Economist* 384, no. 8548 (2007), 14.

¹⁶⁰ China is a strong proponent of non-interference in the domestic affairs of other nations. It is usually referred to as the "Five Principles of Peaceful Coexistence" and has been a major feature of China's foreign policy since first stated by Zhou Enlai in December 1953 during negotiations with India. Pan Tao, "Timeless Theme of International Relations." *Beijing Review* 47, no. 23 (2004), 18.

nations. In the 1990s, China used business contacts to gain favorable congressional votes for the renewal of China's most-favored-nation status by purchasing billions of dollars worth of U.S. goods.¹⁶¹ Similar practices have continued on to today toward the United States. In addition to using economic power to influence major powers like the United States, China is now looking to use the same tools toward developing countries. In 2004, an internal meeting titled "Economic Diplomacy Toward Developing Countries" was a step in organizing an investment strategy that bolstered Beijing's foreign policy goals toward developing countries.¹⁶²

The incentive for developing countries to build economic ties with China is more than just the understanding that Beijing will not interfere in the countries' internal affairs. China's economy has grown tremendously in the past three decades and may continue its rapid growth for the foreseeable future. The Chinese economy is expected to soon surpass that of Germany and take its place as the third largest economy in the world.¹⁶³ With the recent decline in the value of the U.S. dollar, American consumers will be buying fewer goods from foreign producers. This only enhances China's role as an alternate trading partner and possible destination for exports.

2. Soft Power

China's credibility as an economic/political model is enhancing its soft power in a way that most liberal-democratic governments would not have believed possible after the cold war ended.¹⁶⁴ In Latin America, the leadership of both Venezuela and Bolivia are viewing China as a model for economic growth and political power.¹⁶⁵ In the literature

¹⁶¹ Saunders, *China's Global Activism*, 11.

¹⁶² Ministry of Foreign Affairs, *China's Foreign Affairs 2005* (Beijing: World Affairs Press, 2005), 71-72.

¹⁶³ "China sees growth slow to 11.5%," *BBC News*, October 25, 2007, available online at <http://news.bbc.co.uk/go/pr/fr/-/2/hi/business/7061238.stm> (accessed October 25, 2007).

¹⁶⁴ Naazneen Barma and Ely Ratner, "China's Illiberal Challenge: The real threat posed by China isn't economic or military-it's ideological." *Democracy 2* (Fall 2006), 57.

¹⁶⁵ *Ibid.*, 62-64. Iran, Nigeria and Angola are also turning to the China model. Notably, it is mostly countries that are in disfavor with the United States and oil exporters that are turning to China.

review, Nye's concept of "soft power" was described as it applied to China.¹⁶⁶ More than just describing the concept, it is important to understand the potential danger that Chinese soft power represents to liberal democracies. To be sure, China has found a number of ways to strengthen its soft power around the world.

The problematic side of China's growing soft power is the implications for the West. In a 2006 BBC poll, China was viewed positively by many of the developing countries receiving Chinese investment.¹⁶⁷ This is coincident with less positive views of the United States in many of the same countries. In Iran, where China has invested over \$2 billion in infrastructure and energy production since 2002, China was viewed positively by 66 percent of those polled.¹⁶⁸ Brazil is one of Latin America's larger recipients of Chinese FDI and the poll reflects a 57 percent positive view toward Chinese influence compared to only 33 percent positive view of the United States.¹⁶⁹ Investment is certainly not the only factor in some countries' positive view of China over the United States; however it does demonstrate that China is able to capitalize on the low opinions some countries have toward the United States.

The Chinese model of illiberal capitalism is gaining influence in Latin American and particularly with Venezuela.¹⁷⁰ Among the developing world, China is an economic success story that is admired by many. For the leaders of many developing nations, it is difficult to argue with the appeal of China's tremendous economic growth coupled with the Communist Party's solid grip on power.¹⁷¹ As the relationship builds between China

¹⁶⁶ Nye, *Soft power*.

¹⁶⁷ "Israel and Iran Share Most Negative Ratings in Global Poll," *BBC World Service Poll*, http://www.worldpublicopinion.org/pipa/articles/home_page/325.php?nid=&id=&pnt=325&lb=hmpg1 (accessed October 23, 2007).

¹⁶⁸ The U.S. foreign policy and sanctions is also to blame for its low opinion; however Iran is an example of China's growing influence.

¹⁶⁹ Saunders, *China's Global Activism*, 45, 49 and BBC World Service poll data.

¹⁷⁰ *Ibid.*, 62.

¹⁷¹ *Ibid.*, 57.

and Venezuela, other Latin American countries could lean toward China and away from the United States.¹⁷² If China's model of illiberal capitalism continues to spread in Latin America, the United States could see its influence continue to wane.

3. Investment in Latin America and Venezuela

China's investments are usually considered to be without political strings attached. This has brought criticism from Western countries when China invests in (supports) countries whose governments the United States would like to see sanctioned such as Sudan and Iran. Although, it may appear that no demands are placed on the recipients of China's FDI this is not the case. All that can be said is that there are little if no domestic demands placed on recipients of Chinese FDI. The strings that come with FDI are found in the international arena such as in the recognition of Taiwan or votes within the United Nations.¹⁷³ Most important, FDI comes with an expectation for access to resources, and possibly markets, in the future.

In Latin America, China has invested billions. Publicly released numbers from 1993 to 2005 total more than \$34 billion but the reality could be far more. The greatest amount of Chinese FDI went to Argentina totaling over \$19 billion (over half of all Latin American investment). Most of these investments went toward infrastructure projects and resource production that facilitates exports to China. According to official reports Venezuela has received \$1.63 billion but has been promised a much greater figure in the near future.¹⁷⁴ For perspective, the U.S. FDI in Venezuela was over \$7 billion in 2006 and close to \$30 billion in Latin America.¹⁷⁵ Although the total U.S. direct investments abroad is over \$2 trillion worldwide (which greatly overshadows Chinese FDI), it is not

¹⁷² Jaime Daremblum, *Is the Chinese Model Gaining Economic and Political Influence in Latin America?* (Washington, D.C.: Hudson Institute, 2007), 3.

¹⁷³ In 2007, Costa Rica was enticed by financial incentives to cut diplomatic ties with Taiwan in favor of the PRC. "Taiwan-Costa Rica Diplomatic Ties Cut," *China Post*, June 8, 2007.

¹⁷⁴ Saunders, *China's Global Activism*, 45.

¹⁷⁵ Marilyn Ibarra and Jennifer Koncz, "Direct Investment Position for 2006: Country and Industry Detail," *U.S. Department of Commerce* (July 2007), 36.

focused on energy resource exporters is the case with China.¹⁷⁶ Therefore, although China's overall outbound FDI is significantly smaller than U.S. FDI, China is taking advantage of a niche with regard to investments to secure energy sources.

There are many more deals between China and Venezuela (brokered at the state level or state-owned enterprises) that are not included in these figures, such as the \$1.3 billion deal for 18 VLCC tankers that China State Shipbuilding Corporation and others are constructing for Venezuela.¹⁷⁷ These would help facilitate Venezuela's goal of diversifying its customer base beyond the dominant United States. Also, there is another \$36 billion of proposed financing for infrastructure projects in Venezuela and other unnamed Latin American countries.¹⁷⁸ This sizable funding commitment is through a private financing company in Hong Kong that is not directly traceable to Chinese government investment.¹⁷⁹ There is evidence that this money is coming from non-private interests in China and is therefore politically motivated.¹⁸⁰ Therefore, the amounts of Chinese investment in Venezuela is exceptionally ambiguous as many very large investments are often funneled through tax havens (such as Hong Kong or the Cayman Islands) and go unreported in official statistics.¹⁸¹ Arguably, this may be suggestive of the levels and types of energy related investment that can be expected in the future.

¹⁷⁶ Elena L. Nguyen, "The International Investment Position of the United States at yearend 2005," *U.S. Department of Commerce* (July 9, 2006), 13, http://www.bea.gov/scb/pdf/2006/07July/0706_IIP.pdf (accessed November 18, 2007).

¹⁷⁷ Collins, "China seeks oil security," 21.

¹⁷⁸ Warren Chiu to Clayton Ballard of R.I.O. Systems, Memorandum, "Teaming Agreement," July 22, 2002, in author's possession. The PURSCA Investment Group (HK) LTD. pledged an "additional funding up to an amount of USD \$36 billion to the implementation of infrastructure-related projects involving countries other than Mexico, and more specifically including the country of Venezuela."

¹⁷⁹ Because many "private" investments are from State-Owned Enterprises, it is nearly impossible to determine which are for purely profit motivations and which are based on the political objectives of the government.

¹⁸⁰ Based on an Interview with a high level employee of R.I.O. systems on July 2, 2007.

¹⁸¹ Saunders, *China's Global Activism*, 21.

B. NATIONALISM AND THE PROMISE OF ECONOMIC GROWTH

1. What is Chinese Nationalism?

Since the revolution in 1949 and the passing of the Mao era in 1976, the original ideology of the communist party has been slowly transforming into something new. Nationalism is taking the place of communism as the common bond to unite all Chinese people and defend the CCP's legitimacy.¹⁸² As it is still a developing phenomenon, it is difficult to predict how nationalism will ultimately affect China but its influence is already significant in China's foreign policy.¹⁸³

Nationalism is the way in which a group of people defines itself as an entity. It refers to a shared loyalty to the nation and typically creates a distinction apart from (or elevation above) other peoples that are outside of the nation. Nationalism creates a shared sense of belonging but can also create a heightened us-versus-them mentality toward international relations. It is during times of national crisis or shortage that nationalist movements can become a dangerous force in foreign policy.

To clarify, there are multiple forms of nationalism in China. The original nationalism movement began in the early 20th century with the Han majority whose goal was to overthrow the ruling Qing Dynasty.¹⁸⁴ Later this became an elitist attitude that was of such concern that Mao Zedong wrote that "we must go to the root and criticize the Han chauvinist ideas" out of concern that it would damage the Party.¹⁸⁵ Today the Party's primary concern of ethnic nationalism in China is prevalent in the minority ethnic populations such as Tibetans, Uygurs, and Mongols. This form of ethnic nationalism is a

¹⁸² Sheila Miyoshi Jager, *The Politics of Identity: History, Nationalism, and the Prospect for Peace in Post-Cold War East Asia* (Carlisle, PA: Strategic Studies Institute, U.S. Army War College, 2007), 4.

¹⁸³ One example is nationalist websites in China that objected to Japan's efforts to minimize negative views of Japanese atrocities in previous wars. The massive online protest may have led to Beijing's cancellation of a top-level meeting with Japan's prime minister. Suisheng Zhao, "China's Pragmatic Nationalism: Is It Manageable?" *The Washington Quarterly* 29, No. 1 (2005), 131.

¹⁸⁴ *Ibid.*, 133.

¹⁸⁵ Mao Tse-tung, "Criticize Han Chauvinism," in *Selected Works of Mao Tse-tung*, vol. 5 (Peking: Foreign Language Press, 1977), 87-88.

serious cause of concern for the central government due to the potential for increasing unrest and the movement for autonomous governance or out-right secession from China.¹⁸⁶

The focus in this work is on the growing nationalist movement that is in support of the CCP (and has been used by the state to achieve political goals) but also has the potential to push Chinese foreign policy further than might be in the most pragmatic interest of the state.¹⁸⁷ Considerable attention in literature on Chinese nationalism has predominantly focused on current conditions and predictions regarding Taiwan independence and Japanese war crimes.¹⁸⁸ Also Chinese nationalism has been directed at U.S. imperialism and western domination. This could be a significant source of instability in Northeast Asia and be the cause of increased tension with the West if allowed to go too far.

In looking back to WWII, nationalism was a significant precursor of military aggression in both Nazi Germany and Meiji Japan. In both examples, the states were driven to expand territorial claims as a prerogative of a great people, to provide resources for further growth and to take their rightful place in the world. Although the ascendancy of the Nazi party was not the original objective of the nationalist movement in Germany, the prevalent nationalism is attributed to establishing the conditions for Nazism to rise.¹⁸⁹

In defining the “new” nationalism in China, Peter Hays Gries offers some defining elements. As a recent historical element, nationalists in China often refer to the “century of humiliation” that China endured at the hands of the west.¹⁹⁰ This victim mentality presents the nationalist with a fear of future domination and the drive to stand up to the West. It creates an increased suspicion of the United States (and Japan, which is also lumped in with the “West” in this context) that make negotiations more difficult.

¹⁸⁶ Tse-tung, “Criticize Han Chauvinism, 133.

¹⁸⁷ Jager, *Politics of Identity*, 13.

¹⁸⁸ Ibid., 8-9.

¹⁸⁹ Bruce D. Porter, *War and the Rise of the State: The Military Foundations of Modern Politics* (New York: Free Press, 1994), 209.

¹⁹⁰ Peter Hays Gries, *China’s New Nationalism: Pride, Politics, and Diplomacy* (Berkeley, California: University of California Press, 2004), 45.

Another element is the nationalist response to Huntington's "Clash of Civilizations" theory that points to conflict between Asia (typified in China) and the West (United States). Nationalist use this theory to both illustrate the threat the United States poses for China and as evidence that China has grown in global significance and has become a world power.¹⁹¹ Notably, in general the Chinese literature on the "clash" is resolved with a Chinese victory.¹⁹² China's leadership is promoting nationalism among the people as a political tool for legitimacy while attempting to contain it from growing out of control.¹⁹³

2. The Promise of Economic Growth

The CCP has strayed a long way from its communist roots in the interests of economic growth. Deng Xiaoping's concept of a rising tide that lifts all boats describes how shifting to a market economy as an interim stage of development was needed to bring China up to the level of the developed world. Legitimacy of the CCP is now based on nationalism and the promise of economic growth and building a wealthy society. This goal of achieving national wealth and rising to join the developed world has become a key component of the Chinese national self-respect.¹⁹⁴ It is not necessarily a promise of individual wealth, although there is some expectation of this by most individuals, as much as for society as a whole. This places an enormous pressure on the CCP planners to maintain economic growth above almost all other concerns. Many China watchers have argued that this emphasis on the economy makes China a benign rising power because conflict would hurt global trade and therefore the Chinese economy. This ignores the possibility that an economic crisis would inflame the nationalist rhetoric and force the CCP into potentially dangerous action if the blame is placed on imperialist powers.¹⁹⁵

¹⁹¹ Gries, *China's New Nationalism*, 41.

¹⁹² *Ibid.*, 42.

¹⁹³ Suisheng Zhao, "China's Pragmatic Nationalism," 131.

¹⁹⁴ Jager, *The Politics of Identity*, 13.

¹⁹⁵ The use of "imperialist powers" is in reference to nationalist claims that the United States has an imperialist attitude toward the developing world and China.

3. China Against the World

When the world's demand for oil drives global demand above available production, the focus of Chinese nationalism could become other consumers' (as in the United States and Japan) unfair domination of the oil market and imperialist control of resources. Adding nationalist demands to an already tense situation can increase the pressure for Beijing to adopt a more aggressive foreign policy.

Beijing's leadership would not likely risk armed conflict with the United States or even expeditionary adventurism to claim oil based solely on nationalist sentiment. However, the regime has also promised economic development (along with restored national pride) as a source of legitimacy. If both of these ideals are challenged by a significant shortage of the most basic economic building blocks it could bring into question the very legitimacy of the CCP among the most affected sectors of the population with a real voice, the urbanites.

Beijing will go to great lengths to avoid such a loss of legitimacy and will not risk the supremacy of the CCP in China. Therefore, with no other options available and facing tremendous pressure from the domestic front, a significant oil shortage could provoke Beijing into using the PLA to secure overseas sources for oil. One means of using the PLA would be to send troops to provide security against attacks while guaranteeing a continued export to China. This could take place in Africa, the Middle East or presumably in Latin America. Although it is unlikely that Beijing would seek outright conflict with the United States there are scenarios that could drag both countries into a conflict.

While the United States may not be willing to use its military to overtly capture oil sources (preferring long established trading relationships) it has proven its resolve to defend oil-exporting countries from invasion.¹⁹⁶ Similarly the United States is unlikely to stand by while China aggressively pursues oil with military force. By the same measure, if the United States has cause to become militarily involved in an oil-exporting nation that contributed to satisfying China's demand, China may find it difficult to stand

¹⁹⁶ The Gulf War in 1991 to repel the Iraqi invasion of Kuwait is the best example.

by and allow such involvement without pressure to defend the interests of a strategic partner. For example, if Washington opts to take military action against Iran, a key source of oil to China, Beijing might sell off its massive U.S. currency holdings to hurt the U.S. economy. Potentially, Beijing could also supply Iran with arms and asymmetric war-fighting technology that would hamper U.S. efforts and build stronger ties with Iran in the future. Similar risks would be present in Venezuela as China invests more in the region and becomes more dependent on Venezuelan oil.

4. How Does Nationalism Affect Policy?

The rise of nationalism in China has gone well beyond the control of the government.¹⁹⁷ As nationalism grows beyond the Communist Party's manipulation, it becomes its own political force within China that must be both managed and placated at the national level. Beijing understands that nationalism is good for maintaining legitimacy; however, it may also restrict Beijing's political options in foreign policy in the future. At some level, policy-makers are forced to consider how the nationalist writers will view policy decisions and to be cognizant of "popular nationalist demands."¹⁹⁸

Nationalist sentiment develops its own internal soft power quality that influences the national agenda and foreign policy by influencing the decision-making individuals.¹⁹⁹ Just as writers in the United States influence U.S. politicians, Beijing politicians are also influenced by the writings of Chinese nationalists, especially as these sentiments grow more popular.²⁰⁰

¹⁹⁷ Gries, *China's New Nationalism*, 136.

¹⁹⁸ *Ibid.*, 136.

¹⁹⁹ *Ibid.*, 140.

²⁰⁰ In 2005, one month after a massive China-wide protest against Japan's mild treatment of war crimes in new textbooks, a top-level meeting between China and Japan was canceled at the last minute in protest of the Japanese Prime Minister's visit to the Yasukuni Shrine. Although these events are not directly related, it demonstrates the nationalist attitude affecting foreign policy. Whether the cancellation was an effort to appease nationalist sentiment in the population or an actual part of the leadership's worldview, the result was the same. Suisheng Zhao, "China's Pragmatic Nationalism," 131.

Nationalism is becoming a force that must be accounted for in policy decisions in and out of China. Within the context of this paper, it could become a significantly destabilizing influence in a resource-constrained environment. If the nationalist writer is presented with a damaged economy due to unavailable energy resources, the natural response will be to assign guilt to another party. The government is one obvious scapegoat, however it would be in the CCP's interest to subvert such a line of speculation and promote other options. The next option for the nationalist (and one that is even more attractive) would be to blame a foreign power, such as the United States. It is not difficult to imagine calls for fighting back against the imperialist hegemonic powers that are stealing oil that rightfully belongs to China.

A previous analysis of China's nationalism in 1998 proposed that nationalist sentiment would not force the government into adopting an aggressive foreign policy in the near future.²⁰¹ The primary argument given was the overwhelming importance given to economic growth by the CCP. What was not considered is the impact of nationalism in the face of stalled economic growth due to perceived foreign obstruction. In this scenario, nationalistic pressure could have an influence on policy options to respond to the U.S. dominance in oil consumption.

C. REGIONAL HEGEMON: HOW LARGE IS THE REGION?

In a "globalized" world, the concept of regional geographic hegemony is losing traction as a worthwhile concept for understanding international relations. The interconnectivity in the world today does not lend itself to geographic divisions of major powers in the same way that it did previously.²⁰² Put simply, the world is getting smaller and region is defined more in terms of shared values and economic interdependence than geographic position.

²⁰¹ Erica Strecker Downs and Phillip C. Saunders, "Legitimacy and the Limits of Nationalism: China and the Diaoyu Islands," *International Security* 23, No. 3 (Winter 1998-1999), 145.

²⁰² Alastair Iain Johnston, "Is China a Status Quo Power?" *International Security* 27, No. 4 (2003), 37.

With modern communication, rapid transportation and the increasing presence of transnational companies, the legitimacy of the traditional Westphalia system is becoming debatable. Environmental concerns have become a major concern in many countries but are not limited by human-imposed political borders. The mere existence of the debate of the future significance of the nation-state decries the transition from the local to the global throughout the world. Beijing is adamant about maintaining sovereignty in the Westphalian sense, but is also facing new international conditions that require a more global approach.²⁰³

China's region is not simply geographically defined, but is also economic. With growing economic interests in Africa, Latin America, and the Middle East, China's "region" can be seen as considerably greater than merely East Asia. This would imply that China's region is therefore defined by junior strategic partners, countries that are especially receptive to China's "authoritarian capitalism" model, sources of raw materials, and trading partners. When all of these factors are present in a country, it should be considered as a definite member of the Chinese hegemony club, no matter where it is located geographically.

Venezuela would be considered entirely within China's influence if it did not export a majority of its oil to the United States. Already, Hugo Chavez has indicated his interest in aligning with China as a strategic relationship and Venezuela is becoming a major trading partner and recipient of Chinese FDI. China's partnership with Venezuela shows the expansiveness of China's region and the intertwining with the international considerations of the United States.

D. MILITARY MODERNIZATION

The People's Liberation Army (PLA) has been undergoing significant modernization for over two decades. It has been a long road, from its roots as the military arm of the Communist Party, to a modern fighting force able to challenge other modern militaries in the world. These reforms in the military have required substantial

²⁰³ Johnston, "Is China a Status Quo Power?" 14.

investment and dedication on the part of the leadership to change its way of thinking and create a modern military force. China has increased its military spending budget by as much as 17.8 percent in 2007 and has maintained a yearly double-digit budget increase since 1989.²⁰⁴ Outside of the PLA, the 2007 central PRC budget report includes a 20.1 percent increase in science and technology research.²⁰⁵ At the same time the PLA has trimmed its numbers from over 4 million to 2.3 million.²⁰⁶ Cutting personnel allows for more reinvestment in retained quality personnel for education and training requirements. Although Beijing's spending on the PLA is considerably less than what the United States spends on its military, it appears that the PLA is receiving the funding to progress towards its modernization goal.

Since the reforms of the Deng era to today, it has often been the case that China is guided by economics and nationalism rather than Communist ideology. This translated into the military modernization of the PLA as well. While the PLA is not a for-profit venture (at least not since 1998 PLA reforms²⁰⁷) there is still a lot that can be inferred by where the money is spent. The central PRC budget is not likely to invest in military capabilities that the Party leadership does not deem vital to national interests. The question could be, "what does China want to do with its modernizing 2.4 million man military?" Perhaps the question even more important to this thesis is, "How will China use its military when threatened with a severe energy shortage?"

China may not have the capability to fight the United States head on and become the next super-power in a uni-polar world, at least not with the same doctrine the US military follows. However, China is developing a credible asymmetric force that could make U.S. military action extremely difficult and costly in some circumstances. For example, Beijing is developing the capability to deny the United States' ability to support

²⁰⁴ "Full Text: Report on China's Central and Local Budgets," *Xinhua*, Beijing. (March 7, 2007). Office of the Secretary of Defense, *Military Power of the People's Republic of China: 2006*, Department of Defense (2006), 19. and Shambaugh, *Modernizing China's Military*, 189.

²⁰⁵ "Report on China's Central and Local Budgets," 2007, 11.

²⁰⁶ *Military Power of the People's Republic of China: 2006*, 5.

²⁰⁷ David Shambaugh, *Modernizing China's Military: Progress, Problems, and Prospects* (Berkeley, CA: University of California Press, 2002), 185.

Taiwan in a conflict.²⁰⁸ The recent acquisition of Kilo diesel attack submarines and new Sovremennyy-Class destroyers from Russia give the PLAN a credible ability to prevent United States aircraft carriers from coming to Taiwan's aid in a straits crisis. One recent article in a PLA newspaper describes techniques that could be used to counter "carrier-borne early warning aircraft" that includes asymmetric tactics such as jamming and "ambush" attacks.²⁰⁹ These capabilities, coupled with the increasing economic ties between the United States and China, may be enough to keep the most powerful military out of the fight if Taiwan declares independence.

As a near-term goal of military modernization, Beijing wants the capability to prevent a Taiwanese secession. Along with sea denial platforms to counter U.S. intervention, the PLA has upgraded its short-range ballistic missile capability near the Taiwan Strait and continues training for amphibious landings. Beijing has invested in asymmetric information-warfare technology that could make Taiwanese resistance extremely difficult.²¹⁰ Although the PLA has a considerable way to go before it is able to stage a successful amphibious assault against a resisting enemy, training and war-gaming such a scenario leaves little doubt that this is a prominent goal of modernization.

Many of the same technologies and tactics could be used by the PLA to defend overseas investments as long as the host nation is supportive. Oil exporters have seen America's ability to project power in Iraq and certainly understand their own vulnerability. Given Chavez's continual verbal attacks against the United States and calls for abandoning U.S. currency in OPEC, it would not be surprising if Venezuela sought

²⁰⁸ For an in-depth study of China's growing anti-access capability see Roger Cliff, Mark Burles, Michael S. Chase, Derek Eaton, Kevin L. Pollpeter, *Entering Dragon's Lair: Chinese Antiaccess Strategies and Their Implications for the United States* (RAND Corporation, 2007). The study suggests that China could be very successful in preventing the U.S. military from being a determining factor in a regional conflict unless steps are taken by the Pentagon to develop solutions for the challenge.

²⁰⁹ Wei Yuejiang: "Taking out the 'Nerve Center' of Aircraft Carriers: Exploration and Analysis of the Primary Tactics and Methods of Operation Against Carrier-Borne Early Warning Aircraft" Beijing: *Kongjun Bao*, March 20, 2007, 4. (in Chinese) OSC-CPP20070516436006.

²¹⁰ Alice Miller, "A Superpower? No Time Soon," *Hoover Digest* 2 (2005), <http://www.hoover.org/publications/digest/2938796.html> (accessed June 7, 2007).

additional security from China.²¹¹ With access to port facilities in Venezuela, the same tactics that would prevent U.S. intervention in Taiwan could be an effective counter to U.S. dominance in Latin America.

Other goals of China's modernization program include the ability to project power to protect maritime economic interests, capable self-defense forces (nuclear and air defense) and some expeditionary forces.²¹² Although the primary focus of the modernization may be Taiwan, China is not ignoring its other security interests. When matching the United States capability system for system, China is a long way from reaching equivalency. However, assessing technological capability based on asymmetric warfare principles (such as sinking a carrier with a submarine-launched missile or using anti-satellite missiles) it begins to look like a more credible technological threat.²¹³ A recent study of the computer-based information-warfare capabilities of the PLA revealed a powerful information and communication denial capability that could hamper the U.S. military from utilizing its technological advantage in a conflict and thereby level the playing field or use the capability as a form of blackmailed peace.²¹⁴

The ability to secure the energy resources in the South China Sea is another priority of China's military modernization. Beijing would prefer a peaceful resolution in the Spratly Islands dispute, but it is not out of the realm of possibility that China would

²¹¹ Daniel Williams and Maher Chmaytelli, "Chavez Tells OPEC to Use Politics, Curb 'Imperialism' (Update 1)," *Bloomberg.com*, November 19, 2007, <http://www.bloomberg.com/apps/news?pid=20601087&sid=aNmE.oybx0H0&refer=worldwide> (accessed November 19, 2007).

²¹² "Military Power of the People's Republic of China," *OSD Annual Report to Congress* (2006): 24-35.

²¹³ Roger Cliff, Mark Burles, Michael S. Chase, Derek Eaton, Kevin L. Pollpeter, *Entering Dragon's Lair*, 45. China's strategist believe that the strongest asset and most vulnerable feature of the United States military is the use of raid digital communication for command and control. Beijing's hope is that by using asymmetric tactics to disable these systems it would level the playing field in a conflict.

²¹⁴ William G. Perry, *Information Warfare: An Emerging and Preferred Tool of the People's Republic of China* (Washington, D.C.: Center For Security Policy, 2007), 4.

use military force to end the territorial dispute.²¹⁵ This is not simply a regional issue. Once China demonstrates a willingness to use force to secure energy resources locally, it would signal a change in how China and the world view the PLA. As the world's demand for oil increases, it becomes a critical political issue for every oil-producing and oil-importing nation. The need to establish peaceful solutions is vital to China's interests as well as in the United States and Japan.

²¹⁵ China has a historical precedence for using force to settle territorial disputes in the South China Sea. China used force to expand its maritime influence in the Paracel Islands in 1974. This was followed by fighting with Vietnamese forces at Johnson Reef in 1988 as China sought to regain its "lost territories." Most recently, in 1995 (after the efforts to modernize the PLA had begun) China took control of Mischief Reef, which was previously held by the Philippines. Mark J. Valencia & Jon M. Van Dyke, "How Valid are the South China Sea Claims," *Southeast Asian Affairs* (2000), 47.

IV. INDICATIONS OF THREAT TO UNITED STATES

There have been a number of papers written on China's growing interest in Latin America.²¹⁶ Most have suggested that there is no significant threat to the United States and some have gone so far as to point to the positive nature of China's involvement. This chapter will look at some of the arguments used to discredit China's potential threat to the United States as well as provide some other indicators that should be monitored in the future. No one indicator is sufficient to establish a direct threat to U.S. national interests; hence, these should all be monitored and evaluated in context with the other factors.

A. POWER PROJECTION CAPABILITY

A critical point of departure for China's foreign policy would be the demonstrated ability to project power beyond its home waters or airspace. Although there have been no solid examples of this, there is the potential for Chinese military power projection in the near future in Southeast Asia, the Middle East, and Latin America.

1. Demonstration of Power Projection Beyond China

Beijing has long been engaged with Burma and is the only major supporter of the military junta. In recent years, China has provided financial and technical assistance to improve, construct and modernize port facilities in Burma. The projects include improved naval facilities on Coco Island in the Bay of Bengal, runway extensions that are suitable for use by the PLA as well as Burmese forces and the introduction of Chinese-made signals intelligence equipment.²¹⁷

Although Beijing has not reportedly used the facility upgrades in Burma for military power projection, it has created the capacity to do so in the future. Unlike most countries that receive FDI and foreign aid from China, Burma is not a significant source

²¹⁶ For one example of the "China's not a threat" theory see He Li, "China's growing interest in Latin America and its implications," *Journal of Strategic Studies* 30, No. 4, 2007, 833-862.

²¹⁷ Victor A. Chin, *The Prospect of China's Access to Naval Facilities in Burma and the Ramifications For Regional Stability* (Master's thesis, Naval Postgraduate School, 2007), 17-18.

of energy resources for China. In fact, Burma's oil consumption exceeds production by almost 400 percent.²¹⁸ However, there is a proposal in progress to construct an oil pipeline across Burma to China as a means of bypassing the potentially treacherous routes through the Malacca Straits.²¹⁹ The pipeline would begin in Sittwe, where construction is underway to allow access to deep-water vessels such as VLCCs or large naval ships, as well as a similar Chinese-funded port 60 miles south.²²⁰ Additional projects are projected to be capable of supporting Chinese submarines operating in the region.²²¹

All of this construction suggests that Beijing may be interested in protecting energy investments (Burma-China pipeline) with military power. Considering the far greater investments in Venezuela and Latin America for oil production and transportation, it is not unlikely that a similar pattern of investment in military construction will follow. It will not become a critical point of debate in the United States until after China places forces in Latin America, at which point the United States will be faced with limited options.

2. Military Exercises With Venezuela

As of this writing, there have not been any joint military exercises between China and Venezuela. In isolation, such an exercise would not be sufficient to call the relationship a threat. In fact, China has conducted military exercises with many countries that are also considered relatively friendly toward the United States.

However, an exercise with Venezuela would have to be considered within the context of other factors. Chavez's continual venomous rants against the United States as well as increasing oil cooperation would make a military exercise a dangerous signal.

²¹⁸ "Burma," *CIA World Factbook*, U.S. Central Intelligence Agency, <https://www.cia.gov/library/publications/the-world-factbook/geos/bm.html> (accessed October 2, 2007).

²¹⁹ "CNPC, Myanmar Launch Feasibility Study On Gas Pipeline," *Pipeline & Gas Journal* 234, No. 3, 2007, 16.

²²⁰ William Boot, "Burma: Undisclosed Location of Oil Deposits, Size, Need Drilling Prospectors," *Open Source Center* (September 1, 2006) <http://www.opensource.gov> (accessed October 2, 2007).

²²¹ *Ibid.*

Additionally, Venezuela's proximity to the United States could give additional leverage to Beijing if Sino-U.S. relations were to sour. It has already been discussed in Jane's Sentinel Security Assessment that Venezuela could be a future location for Chinese lasers.²²² Forward-based lasers could be used to disrupt American satellites that are essential to the U.S. economy and would give Beijing a strong coercive stick.

There are a number of ways that increased military interaction between China and Venezuela would be problematic for the United States. Military interaction could be in the form of forward basing of PLA assets in Venezuela, access to port facilities for the PLAN or joint exercises demonstrating military cooperation and combined defense planning. Any of these cases would be an indication of increased threat for the United States and warrant careful monitoring.

B. WORLD OIL PRODUCTION CRISIS

As a general rule, today's system of oil imports and exports has been relatively stable among the major importers over the last half century.²²³ Aside from a few glitches, global oil production has grown in harmony with demand. This system will not last forever. The world's proven oil reserves are estimated at approximately 1.3 billion barrels.²²⁴ At the present rate of consumption, this will last for another 39 years. However, according to the peak oil theory, the rate at which the oil can be produced will decline well before the oil runs out.²²⁵ The good news is that this will make oil last much longer than 39 years. Unfortunately, it also means that at some point in the future the

²²² Jane's Information Group, "Sentinel Security Assessment —China and Northeast Asia: Air Forces," Jane's Research Tools on-line, October 31, 2007. http://www4.janes.com/K2/doc.jsp?t=B&K2DocKey=/content1/janesdata/sent/cnasu/chins100.htm@current&Prod_Name=CNAS& (accessed November 5, 2007).

²²³ One of the causal factors for the Japanese attack on Pearl Harbor was U.S. sanctions against Japan that cut off Japan's oil imports. This is a the last example of major powers fighting over oil. That said, many would argue that since the end of the cold war U.S. foreign policy and its overseas wars have been all about oil and the system is already unstable.

²²⁴ EIA, "World Proved Reserves of Oil and Natural Gas, Most Recent Estimates," U.S. Energy Information Administration statistics (January 9, 2007), <http://www.eia.doe.gov/emeu/international/reserves.html> (accessed February 14, 2007).

²²⁵ Robert L. Hirsch, *Peaking of World Oil Production: Impacts, Mitigation, & Risk Management*, Report to U.S Department of Energy (February 2005), 12-13. http://www.netl.doe.gov/publications/others/pdf/Oil_Peaking_NETL.pdf (accessed February 14, 2007).

world's demand for oil could far outpace total production. In a purely economic sense this would cause prices to skyrocket. However, oil is highly intertwined with politics and therefore would also likely cause tension or even conflict as the larger oil importers attempt to acquire a greater share of the dwindling supply.

Estimates for the timing of peak oil vary dramatically, ranging from years to decades before it becomes a serious issue.²²⁶ Few reputable reports suggest that this will not happen. The most pessimistic reports by some prominent geologists is that the world has already reached peak production levels in 2005 and is already slipping.²²⁷ This could produce very dramatic oil shortages in the next few years and would be potentially disastrous for not only the Chinese economy, beyond China, a sudden shift in the structure of the oil market will cause major disruptions in many economies in the world.

The arrival of peak oil is likely to be a watershed moment in Sino-American relations, especially as they relate to Venezuela and other oil exporters. When both countries are clamoring for oil to meet their demand, it will be up to Venezuela to decide which country it will support. If the rhetoric from Chavez is to be believed, the United States could lose a significant source of oil.

C. VENEZUELAN POLITICS

Politics and oil are a dangerous combination. The more China becomes reliant on Venezuelan oil and Chavez's support, the greater potential there is for increased tension and conflict in Latin America. When oil is traded freely in a market-based system, there is less potential for open conflict; however, when political influence is used as a tool to acquire oil, the quest for oil becomes a dangerously competitive national issue among oil importers. Venezuela is already promising to export one million bbl/d to China by the

²²⁶ Hirsch, *Peaking of World Oil Production*, 8.

²²⁷ The EIA predicts peak oil in 40 years but some analysts claim the world will reach peak oil much sooner. The German-based Energy Watch Group has concluded that peak oil production in the world has already been reached in 2006 and is projecting a severe yearly decline in global oil production over the next decades. Report to Energy Watch Group, "Crude Oil: The Supply Outlook," *Energy Watch Group*, October 2007, 71 available at http://www.energywatchgroup.org/fileadmin/global/pdf/EWG_Oilreport_10-2007.pdf (accessed November 5, 2007).

year 2012.²²⁸ This is in spite of a lack of refinery capability in China to process Venezuelan oil. Therefore, politics is already playing a major role in Venezuelan exports, adding instability to the system. Chavez's continual condemnation of U.S. foreign policy and promises to export to China suggest that Venezuela may not be a reliable source of oil for the United States in the coming years.

The risk for China is oil that acquired via political means is a less stable supply than if based purely on market incentives. This creates an artificial sense of energy security, subject to greater risk of sudden upsets and upheavals. If Chavez provides a significant portion of China's imports in the future, it is to China's peril if he loses his grip on power and the incoming regime is less supportive of China and interested in rebuilding economic ties with the United States. This would be a likely reason why China might use coercive military force in Latin America to preserve a dictatorial regime that will maintain the trading relationship.

D. CHINESE OIL IMPORT CAPABILITY

Presently there is no feasible means for Venezuela to ship oil large amounts of oil directly to China in lieu of the United States. First of all, the demand for oil in the United States is far greater than the demand in China. This will change as China's thirst for oil increases and world production begins to wane. Timelines for this model vary; however it is largely undisputed that both will happen.²²⁹ Other factors that prevent Chinese imports of Venezuelan oil include: a lack of proper refineries in China, a lack of Chinese oil-tankers that can traverse the Pacific, a lack of capacity of the Panama canal to handle large tankers, and a lack of an east-west pipeline to connect the Atlantic to Pacific. All of these factors will be addressed in this chapter.

²²⁸ "Venezuela is shipping 1 million bpd of oil to China in 2012," *El Universal.com* (Caracas), November 15, 2007. http://buscador.eluniversal.com/2007/11/15/en_eco_art_venezuela-is-shippin_15A1197041.shtml (accessed November 17, 2007).

²²⁹ The EIA predicts peak oil in 40 years but some analysts claim the world will reach peak oil much sooner. The German-based Energy Watch Group has concluded that peak oil production in the world has already been reached in 2006 and is projecting a severe yearly decline in global oil production over the next decades. Report to Energy Watch Group, "Crude Oil: The Supply Outlook," *Energy Watch Group*, October 2007, 71 available at http://www.energywatchgroup.org/fileadmin/global/pdf/EWG_Oilreport_10-2007.pdf (accessed November 5, 2007).

1. Construction of Heavy Crude Refinery Capacity

There have not been any reports that China is building oil refinery capacity to handle Venezuelan crude at this time. However, this may be less of an impediment to China than it would seem. Considering that the refineries in the United States that can process Venezuela's oil are owned by Venezuela, it would not be surprising for Venezuela to build new refineries in China to encourage oil trade. This would have to be handled delicately by Beijing to protect relations with the United States, but China has already demonstrated a willingness to build refineries for difficult grades of crude oil. The Chinese oil company Sinopec signed a joint-venture deal with Exxon and Aramco to build oil refinery capacity in China to handle the high-sulfur heavy crude from Saudi Arabia.²³⁰ Although this deal is not intended for Venezuelan crude, there is not reason to see sulfur content as a major impediment for China's future imports from Venezuela. The Aramco deal provides some evidence that China will build whatever refinery capacity it needs to secure imports and is not limited to the sweet crudes that most importers prefer.

Also, China has already shown a willingness to adapt to inferior qualities of fuel imports from Venezuela. China is already a major recipient of Venezuelan orimulsion exports.²³¹ This mock-oil fuel is used in some Chinese power generation facilities but is largely shunned by most countries due to the excessive pollution it generates. The orimulsion industry accounts for an additional 6.5 metric tons in Venezuelan fuel exports.²³² Therefore, the argument that China will not import Venezuela's "heavy crude" because it lacks the proper refineries is baseless considering the adaptability China has demonstrated in building an industry on orimulsion. If Beijing can build plants to

²³⁰ Bhushan Bahree and Thaddeus Herrick, "Exxon, Aramco Join Sinopec In Refinery Venture in China," *Wall Street Journal* (Eastern edition), July 11, 2005, A2.

²³¹ Orimulsion is a registered trade mark of a Venezuelan produced heavy petroleum material containing 70% bitumen and 30% water. "Glossary," *International Petroleum Monthly* DOE-EIA, <http://www.eia.doe.gov/emeu/ipsr/appc.html> (accessed June 9, 2007).

²³² R. Evan Ellis, *U.S. National Security Implications of Chinese Involvement in Latin America*, (Carlisle Barracks, PA: Strategic Studies Institute, 2005), 7.

burn Venezuelan orimulsion, simply because it was available, there is little doubt that China would be capable of building refineries for heavy crude when the need exists.²³³

2. Construction of Tankers That Can Traverse the Pacific

Today, China does not have sufficient VLCC ships that can safely traverse the Pacific Ocean. China's tanker fleet is mostly comprised of smaller, coastal ships that are unsuitable for long oceanic transits. This will soon change. The Ministry of Communications water transport department has recently said that China will be building additional oil tanker capacity to accommodate the rising demand.²³⁴ This new push for tankers (possibly as many as 90) is not only for the in-land waterways-capable tankers as were previously built but is now for VLCC capable of oceanic transit. The government ministry has asked the Dalian Shipbuilding Industry Company to place a priority on oceangoing carriers and cites oil insecurity as a factor for increasing Chinese-flagged VLCCs.²³⁵

By increasing China's tanker fleet, Beijing will become less dependant on international carriers to deliver its much-needed oil. Increased import capability offers Beijing more options in dealing with international upsets in the flow of oil to China. Without the tankers, military options to secure oil imports would be impossible due to likely international sanctions and refusal of foreign tankers to carry oil to China. This will no longer be as significant of a concern for Chinese planners.

3. East-West Oil Pipeline

China may have already found at least one possible solution to the east-west transit problem with a U.S.-based consortium. R.I.O Systems, Inc. is involved in multiple pipeline projects in Mexico, Central and South America. The initial project involves a north-south pipeline and distribution infrastructure in Mexico. However, long-

²³³ Ellis, *U.S. National Security Implications*, 7. The need may be soon if Venezuela follows through on the previously mentioned promise to export one million barrels per day to China by 2012.

²³⁴ Winnie Lee, "China builds own fleet to handle oil imports; Maritime transport capability seen as energy security issue," *Platts Oilgram News* 85, No. 117, June 15, 2007, 3.

²³⁵ Ibid.

term plans include an east-west pipeline (most likely in Guatemala) with terminals for VLCCs on each side of the isthmus. Toward this effort, a Chinese company based out of Hong Kong has pledged an initial payment of \$36 billion to begin construction of the project.²³⁶ This not only highlights Chinese interest in the east-west flow of oil, but also shows that “official” numbers on Chinese investments fail to include the full scope of China’s interests in Latin America.

Once complete, this pipeline would present Venezuela some new options for oil customers. Venezuelan oil can be sold to China with far lower transportation costs than without the pipeline. Whether this diverts a significant percentage of current U.S. imports to Chinese buyers would become more a matter of politics rather than one of geography. This represents a significant shift in oil politics between the United States and Venezuela and gives Chavez some new leverage over the U.S. economy.

E. OTHER REGIONS

China’s actions on other continents may provide some indication for the future of China’s involvement in Latin America. Amid the controversy of China’s support of unpopular regimes lie some clues to what its response to a crisis in Latin America might be.²³⁷ In the case of Iran, China has continued to show support for the regime in spite of U.S. concerns over that country’s nuclear issues. In Sudan, while the United Nations has pressed for intervention to stop the 2007 genocide in Darfur, China signed a deal to pay for a new presidential palace and has allegedly provided weapons to the oppressive regime.²³⁸ Again, Sudan is a country rich in oil resources and a large recipient of Chinese investment. As an indicator for future action in Venezuela, China’s actions in other oil producing regions are worth careful monitoring and observation.

²³⁶ Warren Chiu to Clayton Ballard, Memorandum, “Teaming Agreement,” July 22, 2002, in author’s possession. The PURSCA Investment Group (HK) LTD. pledged an “additional funding up to an amount of USD \$36 billion to the implementation of infrastructure-related projects involving countries other than Mexico, and more specifically including the country of Venezuela.”

²³⁷ By “unpopular regimes” the author is referring to those unpopular among western developed countries because of poor human rights records or those generally considered to be going against the majority of the democratic world.

²³⁸ Sebastian Mallaby, “A Palace For Sudan: China’s No-Strings Aid Undermines the West,” Editorial, *Washington Post*, February 5, 2007.

V. CONCLUSION

A. CHINA'S AMBITION

Seemingly endless literature has been produced attempting to ascertain China's ambition. Some writers weave fantastic tales to show how Beijing has a diabolical grand strategy for the world. Others portray China as a benign giant emerging peacefully to one day take its place among the great powers with good intentions all the way. The reality is that the innermost sanctum of the Communist Party leadership is closed to outside observation. Party meetings to decide major policy are not open to public scrutiny and Western observers have no way of knowing what is being planned by the CCP or what options are considered on the table. Whether one chooses to see a growing menace with evil plans, or to believe the party's proclamations of harmonious societies and good neighbor policies, it is impossible to know its agenda with certainty.

What can be analyzed and evaluated are the pressures that the CCP is facing and what options are available to China's leadership. Whether the CCP has a grand strategy of replacing the United States as the only superpower or merely becoming the regional hegemon has little bearing on the potential threat that needs to be addressed when Beijing is faced with a major shortage of energy resources. To maintain the survival of the regime, the Party cadre will likely consider any available tool, including military power, as they determine the course China will take in meeting those needs. It is vital for the United States and every oil-importing nation to ensure that there are available options for every nation (including China) to resolve disputes over excessive oil demands. The last section of this chapter will describe one possible solution to resolving future disputes by establishing a framework today.

B. IMPLICATIONS FOR THE UNITED STATES

1. Engage Latin America?

The flip side of the Monroe doctrine concept of preventing external influence in the Americas is the responsibility to meet the needs in Latin America. China's growing influence in Venezuela is facilitated by the region's perceived ambivalence of Washington's motives towards Latin America in general and Venezuela in particular. Unless the United States is prepared to become truly isolationist and withdraw all of its interests in Latin America, there needs to be greater emphasis and aid focused on bolstering relationships with all Latin American countries. Chavez is popular among the poor in Venezuela precisely because his predecessors made little effort to help the poor or to resolve the issue of poverty in the countryside.

As long as Hugo Chavez remains in power, it may be too late to really make a significant impact in Venezuela. However, it is not too late to engage Venezuela's neighbors to minimize Chavez's regional influence. If the surrounding countries do not support Chavez's anti-American stance and can rely more heavily on the United States for aid and support, the impact of China's investment in the region can be reduced.

2. Need to Reduce U.S. Oil Dependency

The United States has an absolute dependency on foreign oil. In the 2006 State of the Union Address, President George W. Bush stated, "America is addicted to oil."²³⁹ It is almost impossible to find an American industry that is not dependent on oil at some level. This can be viewed as both a strategic strength (because of the massive economy it creates) as well as a strategic vulnerability (in the case of major interruption or eventual depletion). While abundant oil has been a foundation of America's rise to superpower status, it has also become a major driver of U.S. foreign policy since the end of the Cold War.

²³⁹ George W. Bush, "State of the Union Address by the President," *United States Capitol*, Washington, D.C., January 31, 2006.

Many of the small oil producers are now leaning toward non-U.S. markets to sell their oil and oil products. In turn, the United States is forced to rely more heavily on oil from a few large oil-producing sources. Although this does not lessen the total pool of the world's oil, it does increase America's vulnerability. In the event of a disruption of oil from a major provider, the United States is left with fewer options to maintain its oil supply and the economy.

As China's growing demand for oil becomes an issue for the global economy there are some decisions that must be made to address it. One option is to dramatically reduce the demand for oil in the United States. Ideally, developing replacement energy sources, new technologies and a new institutional outlook on oil would reduce demand. Although not an overnight solution, it is absolutely vital that the United States lessen its demand for oil imports so as to reduce the America's strategic vulnerability to oil import disruption.

Reducing demand would require a significant restructuring of the way Americans view oil. Wider availability of public transportation could encourage less long-distant commuters from starting their cars. Increasingly stringent fuel economy standards would have to be imposed upon automobile manufacturers.²⁴⁰ New technologies for using alternative fuel sources in both industry and homes would have to be developed. Although this does not directly address the issue of China's demand for oil, it would allow for more flexibility in dealing with China and other oil consumers and decrease the significance of oil producers in U.S. foreign policy interests.

3. New Containment Policy?

Although it may be tempting for some to call for a strong containment strategy toward China, it is not realistic in today's world. In contrast to the Cold War period, the United States depends on Chinese manufacturing (and China needs the United States for markets). Additionally, a major portion of the overseas national debt is held in China.

²⁴⁰ For a more in-depth discussion of these and other "dependency reduction" proposals see Michael T. Klare, *Blood and Oil: The Dangers and Consequences of America's Growing Dependency on Imported Oil* (New York: Owl Books, 2004), 193-197.

Both nations are interested in maintaining strong economies and therefore will not likely jeopardize them for political gain. Therefore, from the U.S. perspective it would be nearly impossible to heavily sanction China and thus create a containment strategy. The domestic forces that restrict the United States from acting too strongly against China have a potentially very different effect in China. As discussed earlier, the risk of popular dissent population could force Beijing to take action to protect overseas interests, even if it caused a loss of U.S. markets.

4. Monitor Indicators

First, it is imperative for the United States to continue to closely monitor China's involvement in Venezuela and establish some clear lines that China should not cross. If at some point the proposed lines are crossed a dramatic shift will be required in United States policy toward Venezuela and Latin America as a whole. China's presence in Venezuela is growing. Since intentions are almost impossible to discern before history is written, it is necessary for the United States to establish and monitor some benchmarks that will be an indication that things are not advancing in accordance with U.S. foreign policy and national interest.

Second, it is essential that analysts and policy makers carefully consider each new indication that a threat to the United States is emerging without explaining away the facts. Many authors have rationalized the evidence to make China a non-threat, only to have the facts turn against them. Rather than hunting for new evidence to discredit the "China Threat" theories, it would be more beneficial to explore the possibility that there is a developing situation that will require a nuanced foreign policy to address it.²⁴¹ The following section is one such policy option that may work to mitigate the potential threat by revamping the framework in which China is rising. Without a dramatic shift in the present realist framework, the risk of violent competition will remain great.

²⁴¹ Bill Gertz, *The China Threat* (Washington, D.C.: Regnery Publishing, Inc., 2000).

C. A MULTILATERAL OPTION

China is likely to stand out as a major competitor in the struggle to secure stable oil sources. Clearly, the growing demand in China is of vital interest to both Japan and the United States. After a decade of frustration with China since the end of the Cold War, Japan has adopted a more realist approach than the previous hope of economic interdependence.²⁴² At the same time, Japan has concerns regarding future U.S. policy toward China. There has been a growing fear in Japan since 1972 that Washington would abandon Japan and side with China on policy issues.²⁴³ This fear could be a stumbling block for Washington when developing a trilateral agreement on oil distribution. Even if Japan were to take a leading role in energy negotiations with China, there is still a significant potential for a wedge to develop between the United States and Japan. Due to the competitive nature of Washington and Tokyo in their respective relations with China, it is unlikely that Congress would agree to any concessions if raised by Japan and China.²⁴⁴ Therefore, a multilateral framework of a much larger scale is required to move forward in any energy deals among the three largest oil importers.

History has often demonstrated the risks associated with the rise of new world powers. As the balance of power shifts, the status quo is invariably forced to change. Avoiding major conflict is often dependent on the willingness of the established powers to make adequate concessions to the emerging powers.²⁴⁵ It is this circumstance that the United States and Japan are faced with in dealing with China. Some possible scenarios for future war with China are based on the competition for resources and a purely realist approach to foreign policy.²⁴⁶ While no one can accurately predict what future conflicts will entail, it is likely that without some international framework to deal with oil distribution and sharing, there is an increased potential for conflict to erupt.

²⁴² Michael Green, *Japan's Reluctant Realism* (New York: Palgrave, 2001), 78.

²⁴³ *Ibid.*, 107.

²⁴⁴ *Ibid.*, 108.

²⁴⁵ Kenneth Pyle, *Japan Rising* (New York: Public Affairs, 2007), 310-311.

²⁴⁶ Jedd Babbin, *Showdown: Why China Wants War with the United States* (Washington, D.C.: Regnery, 2006).

A multilateral approach to foreign policy has been a core value in Japan since joining the United Nations in 1956.²⁴⁷ Japan has been a part of many international organizations and has demonstrated significant leadership in all. Japan leads the world by example with regard to its adherence and support of international treaties such as the Nuclear Non-Proliferation Treaty. Most important to Washington is that Japanese goals in international organizations have been predominantly favorable toward U.S. interests.²⁴⁸ Therefore, in developing a multilateral solution to the problem of oil markets and distribution, it would be beneficial for Washington to be supportive of Japan's leadership in creating a new framework.

As demonstrated, China is heavily reliant on oil imports to fuel its rapidly expanding economy. The source of Beijing's sense of insecurity is twofold. First, China lacks a military that is capable of projecting power to protect overseas investments and oil supply. Second, China has traditionally shunned the alliances that could have helped create a security sphere to protect its investments and overseas energy sources. The military aspect is beginning to change as the PLA is expanding its role to cover more than just the Taiwan issue and is investing in expeditionary capability.²⁴⁹

To mitigate China's insecurity and at the same time protect the national interests of both the United States and Japan, a multilateral international institution for shared energy security is necessary. A combined effort by the major oil consumers and producers, to meet the challenges of growing energy demand, would create a stable environment for all to thrive. Fair pricing, distribution, and interconnectivity can all exist in a shared security forum. Technology sharing to improve efficiency should be another aspect of the agreement. This will lessen the potential for future armed-conflict over resources and help mitigate the possibility of inadequate supply to meet the growing demand.

²⁴⁷ Green, *Japan's Reluctant Realism*, 193-194.

²⁴⁸ Ibid., 195.

²⁴⁹ "Military Power of the People's Republic of China," *OSD Annual Report to Congress* (2006): 24-35.

The creation of a new worldwide institution will require a large number of countries to come on board without coercion. It will need a country that has others' respect, a strong stake in the issue, and is generally trusted as a positive influence in the world. The best country to fit all of these is Japan. Japan is very highly regarded by most countries and viewed as having the most positive influence in the world.²⁵⁰ Conversely, the United States has become a less popular actor on the world stage. Although undoubtedly the most powerful in both economic and military terms, the United States is viewed negatively by many countries and may not be trusted to successfully lead the way in establishing a new international agreement.²⁵¹ Therefore, the United States needs Japan to take a leadership role in this effort for it to be successful. Placing Japan at the forefront of negotiations, with the backing of the United States, it is more likely that a majority of nations would agree to a proposed framework. Although China generally views Japan with suspicion, it has often demonstrated an interest in participating in global trade organizations such as the WTO.²⁵² China has also demonstrated willingness to work diplomatically in a multilateral setting as in the six-party talks. After a majority of China's trading partners have signed on to an energy security agreement, it is even more likely that China would be willing to work within the new framework, rather than compete against it. It could be that Japan is the key to "China's peaceful rise."²⁵³

Now is the time to come to an agreement on global cooperation over energy resources. Creating a framework and institutions that promote cooperation before supply becomes limited is very important for success. It will take time for a new framework to become institutionalized in the international arena and create a system that is trusted to be fair for all, discouraging independent action. If the United States, Japan and China all

²⁵⁰ "Global Poll Finds Iran Viewed Negatively," *World Public Opinion.org*, (February 3, 2006) http://www.worldpublicopinion.org/pipa/articles/home_page/168.php?nid=&id=&pnt=168&lb=hmpg1 (accessed September 10, 2007).

²⁵¹ Ibid.

²⁵² Lardy, *Integrating China*, 1.

²⁵³ Bijian, "China's 'Peaceful Rise'," 2005.

work together now, the likelihood of future war over oil among the great powers will be diminished. In addition, the shock of an oil shortage on any one country will be distributed and therefore a severe economic crash could be averted.

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